COMMODITIES

Meat prices look good; vegetable crop improves

NRN Special Report

The effects of the heavy storms which disrupted plantings in California's vegetable fields have finally tapered off. Lettuce, which had risen as high as $12 per case of 24's in the Salinas to Santa Maria area, have now fallen to seasonal levels of $3-$3.50, depending upon quality. Outlook from this area, which is the major iceberg lettuce producing area in the country, is for adequate supplies through the fall.

Some of the pressure has been taken off the California market by local growing areas across the country, although Florida supplies of iceberg are over for the season. Local corn and green peppers will be coming into the marketplace from New England to the upper Midwest this month, and local tomatoes, particularly cherry tomatoes, will be available in good supply for operators.

Yellow onions should be in good supply this year and through the winter. California's crop is a good one, and Texas is reporting a larger crop than last year, even though the acreage planted is down. A combination of new onion varieties with greater yield and ideal growing weather has provided up to double the normal yield in some areas, according to state agricultural spokesmen.

Canned fruit and vegetable outlook

The U.S. Department of Agriculture issued its forecasts for a number of processed fruit and vegetable packs on June 21. In fruits, canned cling peaches will be in short supply, with carryover stocks down 29% from last year and the anticipated production down by 17% this year. Actually, the picture is dimmer than it seems, because the pack for 1983 will be lower than it was in 1981 (down 25%) and in 1980 (down 38%). With this much drop over a three-year period, look for tight supplies and higher prices. Some distributors may be forced to allocate supplies by the end of the pack year next summer if demand continues for clings.

Canned freestone peaches, although not as popular with operators as the firmer, more regular clings, will be up a bit in production over last year (6%), however, a carryover of 6/10's is off by 33% from last year. Apricots had a carry-over of only 219,000 cases, including both 6/10's and retail sizes. That's down 15% from last year and a whopping 80% from 1981. This year's crop forecast is for 5% less fruit available to canners.

Pear stocks have dropped by nearly 50% from last year, with shipments up about 70% because of greater demand. Expect prices, with a crop down about half of last year's—to mount steadily through to next summer.

The U.S.D.A. is expecting a dropoff in the pea pack, the fourth year that there has been a decline in the amount processed. While 6/10 stocks are down 26% from last year, demand has remained fairly consistent, putting additional strain on the supply. Northwest opening prices this year have shown an increase of about $1.30 per case.

Green pea production is forecast as down 5%, and carryover of stocks of 6/10 size is down 37%. Northwest packers are trying to move opening prices up on green beans as well.

The U.S.D.A. announced a higher than expected carryover of frozen peas. Stocks are nearly 125% higher than last year at this time. The outlook for the crop is to equal last year's, which should increase carryover even more by next year.

Corn, both cut and cob, is down from last year, both in carryover and in crop forecast (10%). Green beans will have a crop of about the same as last year. Green bean carryover is off.

Pork Slaughter High

The slaughter of hogs has been rising through the spring and peaked about late June. At one point, the slaughterhouse price for pork loins was down to $0.86 per pound, as compared with the high of $1.19 last winter. A surprise to many observers was the U.S.D.A. report in late June that hog production was up by 11% over last year; most had expected a 7% figure. The increased production means that farmers might be expected to

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PRICE MOVEMENT AT A GLANCE

	July 8, 1982	June 8, 1983	July 8, 1983
Beans, pinto, dry Colorado (cwt.)	$14.75-15.00	$16.50	$19.00
Beef, Choice 700-900 lb. Midwest (lb.)	$ 1.06	$ 1.03	$ 1.03
Broccoli, fresh California (14s)	$ 4.50-5.00	$ 5.00-5.50	$ 5.50-6.00
Broilers, icepack, Grade A, NYC (lb.)	$ 0.5199	$ 0.5219	$ 0.5497
Celery, fresh, California (2½ doz.)	$ 5.50-6.00	$ 7.00-8.00	$ 8.00-9.00
Coffee, green beans, Brazil, NYC (lb.)	$ 1.40	$ 1.28	$ 1.275
Eggs, Grade A large white, CHI (doz.)	$ 0.6575	$ 0.645-0.65	$ 0.645-0.65
Lettuce, iceberg, California (24s)	$ 4.00-6.00	$ 8.00-10.00	$ 3.00-3.50
Pork loins, Choice, 14-17 lb., Midwest (lb.)	$ 1.25	$ 1.09	$ 1.00
Potatoes, round white (50 lb.)	$ 3.20	$ 4.50	$ 5.25

Source: NRN Research

Prices listed are packers' f.o.b. plant, unless specified, and do not represent the prices paid by the operator. This list is only a reference to indicate price trends against benchmarks of one year ago and one month ago. Products listed are those showing marked movement in price.

Sambo's seeking Season's switch to Baxter's, Coco's

By Richard Martin

CARPINTERIA, Calif.—W. R. Grace has taken tentative steps to launch a major expansion of its Coco's and Baxter's concepts by negotiating to make Sambo's restaurants here its first domestic licensee.

As many as 206 of Sambo's ill-fated Season's conversions would be revamped into the two Grace concepts under a plan sketched out in letters of intent drafted after two weeks of talks between the two companies.

(Interestingly, Grace has expressed some interest six years ago in possibly acquiring Sambo's at a time when Charles Lynch headed Grace's consumer services. But no deal was ever consummated, and Sambo's plummeted rapidly after 1977.)

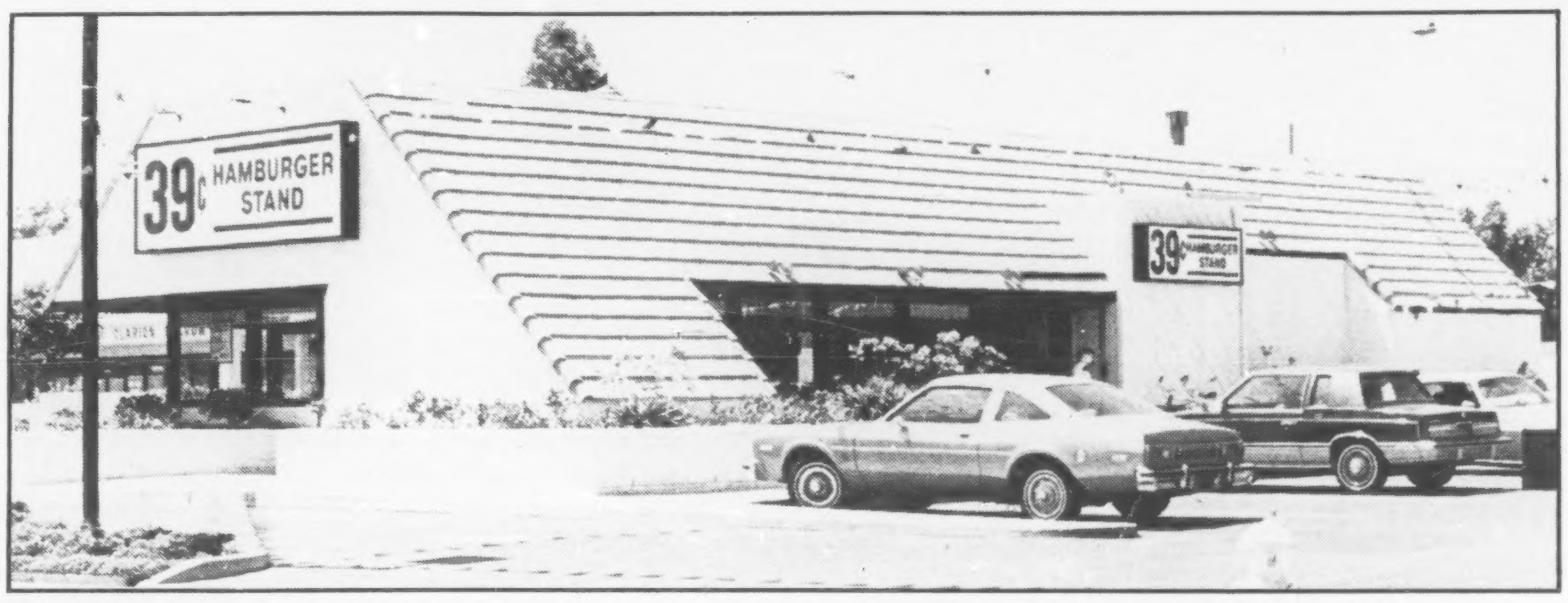
Grace Restaurant Co. chief executive Anwar Soliman said in Irvine that a definitive agreement could be reached early this month. He told *Nation's Restaurant News* that conversion of the Season's units, mostly in California and Florida, would then begin "as soon as practical," if approval could be obtained from the companies' directors, the S.E.C. and Sambo's Chapter XI bankruptcy court. The final number of Sambo's units Grace might choose to license has not been set.

Just weeks before Sambo's revealed the proposed deal with Grace, approval was granted by the Federal bankruptcy court in Los Angeles for the franchise agreement reached between Sambo's and Godfather's Pizza of Omaha. Sambo's will become Godfather's single-largest franchise operator by converting 112 of its units, also in California and Florida, into Godfather's restaurants by mid-1984.

Sixty of the conversions are due to be completed by the end of this year. Godfather's will finance the Sambo's conversions by advancing $15 million on a secured revolving basis through November 1985. Repayment would be required by 1989.

It is also not clear how the two Grace concepts would be retrofitted into the existing Season's facilities. Coco's, a coffee shop format, would appear to lend itself more easily of the two to conversions. However, the current Baxter's format—

(Continued on page 189)



The Hamburger Stand's core menu item is a 1.6-oz. unadorned burger priced at 39¢.

Wienerschnitzel Int'l promoting new no-frills hamburger concept

By Richard Martin

NEWPORT BEACH, Calif.—Wienerschnitzel International's new plain-wrap fast-food concept, Hamburger Stand, has been earmarked for an expansion which could take the company far far away from its hotdog roots.

A 13-unit test of the new concept began in Los Angeles last October in converted stores and resulted in average sales at the units, 150% over what they had been doing as Wienerschnitzels.

In June, all 24 Wienerschnitzel units in Colorado were converted to the Hamburger Stand format, which features basic 39¢ burgers, fries and soft drinks.

The company reports a strong interest from prospective franchisees in the concept, and also sees it as a means of salvaging Wienerschnitzel units it would otherwise abandon due to changing market conditions. For the past year any Weinerschnitzels marked for closing have instead been converted to Hamburger Stands.

The privately held, 319-unit chain operating in 11 western states expected to end its most recent fiscal year on June 30 with systemwide sales of between $105 million-$110 million, up from $102 million.

Wienerschnitzel units posted average annual sales of about $385,000 each in the latest year; those outlets getting new burger grills—part of the average $10,000 facelift to the basic black-and-white Hamburger Stand format—are expected to score annual per-unit averages of between $720,000 and $900,000.

"There's no doubt in my mind that price/value will hold the key to fast food in the future," said marketing vp Dennis Tase. "Our theory is that generic burgers have a place right alongside hotdogs as things develop."

Harkening back to the old White Castle-type burger, Hamburger Stand's 39¢ core item is a 1.6-oz. beef patty on a plain bun with a squirt each of ketchup and mustard, plus chopped onion and sliced pickle. Fries and soft drinks are the same price; cheeseburgers are 10¢ more. Doubleburgers are 75¢; bacon-cheese burgers are 79¢, and double cheeseburgers go for 95¢. A clone of the Big Mac called the Grandstand burger is being tested and will roll soon at 99¢.

For the statewide rollout in Colorado (19 units in Denver and five in Colorado Springs) Wienerschnitzel is spending close to $500,000 through the summer on a multimedia ad blitz Dennis Tase describes as being of a frequency level "higher than any competitor has ever reached in an eight-week period in the Denver market."

Ten- and 30-second TV spots produced by Stan Freberg are accompanying 60-second radio spots, along with billboards and inserts. For the TV ads, Freberg's "hambargain" theme is depicted using a new process called Ultimatte 4, wherein restaurant scenes and people are shown in black and white, while all food items appear in color.

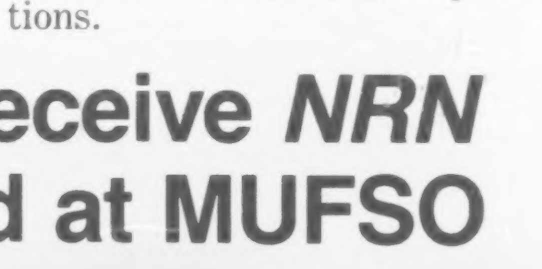
The company chose Colorado for the rollout partly to achieve greater initial control of the potentially lucrative Hamburger Stand concept: only 40% of the units in the state are franchised, as opposed to the systemwide average of about three-fourths franchised operations.

Ray Kroc to receive *NRN* pioneer award at MUFSO

By Charles Bernstein

LOS ANGELES—Ray Kroc, who started the McDonald's chain 28 years ago at the age of 52, will receive a special award as *Nation's Restaurant News'* Multi-Unit Food Service Operator (MUFSO) pioneer-of-the-year, at *NRN*'s 24th annual MUFSO conference in the Century Plaza Hotel Oct. 9 to 12. (See pages 154-158 for feature articles on the Century Plaza.)

In a rare if not unprecedented appearance by a McDonald's executive at an industry conference, McD president and chief operating officer Michael Quinlan has agreed to appear with Kroc when the award is presented at *NRN*'s MUFSO awards banquet Tuesday evening, Oct. 11.



Ray Kroc

NRN inaugurated the pioneer-of-the-year award last year for outstanding service and achievement in the industry, and the award went to Marriott founder and chairman J. Willard Marriott Sr. at the

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Gen. Mills restaurants approaching $1 billion in sales

ORLANDO, Fla.—The General Mills restaurant group, led by Red Lobster seafood dinnerhouses, was expected to hit the $1 billion mark in annual systemwide sales by mid-July.

The sales milestone comes just shortly after the Minneapolis-based consumer goods conglomerate posted disappointing earnings gains for its five-chain restaurant division.

General Mills Inc. said operating profit of the restaurant group rose a mere 1% to $80 million for the year-ended May 29, compared to the year before.

Group revenue rose 17% to $984.5 million from fiscal 1982.

The company blamed the limp profit gain on a weak economy which slowed traffic counts and also on costs of developing its smaller, newer concepts.

General Mills reported companywide net profits of $245.1 million, a 9% advance, on $5.6 billion revenues, a 5% gain, over 1982.

The restaurant group, which is headquartered here in Orlando, is anchored by Red Lobster Inns of America.

Red Lobster posted a 16% increase in systemwide sales to $725 million. It opened 35 new stores to finish with 363 units.

Five York Steak Houses were added during the year to total 149 as York's sales rose 12% to $162 million.

The biggest growth rates, however, came from General Mills' Mexican dinnerhouse and casual-themer entries.

Casa Gallardo added 12 units in fiscal 1983, doubling in size to 24 units. And Darryl's 1890 added 10 units to finish with 28.

General Mills' fifth chain, a quiche-and-salad concept called The Good Earth, added two units to end with 13.

Morrison posts 19% gain in net profit for fiscal 1983

MOBILE, Ala.—Morrison Inc. posted a 19% gain in net profit for the year ended May 28 to $18.7 million, compared to fiscal 1982.

Revenue from 1982 to 1983 rose 15% to $421.5 million.

Fourth-quarter net profit advanced 16% to $5.6 million on an 8% revenue increase to $110.5 million, compared to the fiscal 1982 quarter.

Morrison Inc. operates 151 cafeterias and nine family buffets. It ended fiscal 1983 with 24 Ruby Tuesday causal-themer restaurants and 300 institutional food-service management accounts.

The company's unconsolidated insurance subsidiary yielded net profit of $1.3 million, a 44% improvement over the previous year.

Food-service chain stock analysis table

		STOCK PRICE							TREND TO MARKET				EARNINGS/SHARE					P/E	DIVIDENDS			FINANCIAL POSITION					
		Two Weeks Ended July 15							Price Trend (% per day)		Volume Trend (% per day)			Latest 12 Months vs Preceding 12 Months Change					Indicated Dvd. Rate			Last Fiscal Year			Last Fiscal Year (Per Share)		
					Change		52-Week																				
Name	Symbol	High	Low	Close	Amt.	Pct.	High	Low	Last 30 Days	Last 5 Days	Last 30 Days	Last 5 Days	Last Fiscal Year	Amt.	Pct.	5-Year Annual Growth Rate	Profit Margin	Latest P/E Ratio	Amt.	Yield	Last X-Dvd. Date	Revenue	Earnings	Current Ratio	Long Term Debt	Common Stock Equity	Last Balance Sheet Date
—	—	$	$	$	$	%	$	$	%	%	%	%	$	$	%	%	%	—	$	%	—	$ Mil.	$ Mil.	—	$	$	—
Acapulco Y Los	ALAR	6.25	6.00	6.25	-.13	-1.96	7.88	3.75	-.34	1.60	-.14	9.01	.05	.21 S	NE	-25.0	.3	36.8	.00	.0	01-06-81	37.1	.1	1.4	6.13	2.99	1082
Am Motor Inns	INN	37.25	36.50	36.75	-.25	-.68	38.50	15.88	.20	.48	-7.30	11.76	2.10	.40 N	20.3	27.0	7.0	15.5	.25	.7	08-10-83	161.4	11.3	1.6	15.08	13.00	0782
ARA Services	ARA	51.25	48.38	49.75	-1.75	-3.40	55.00	26.00	-.37	.40	-1.46	57.97	3.43	-.30 S	-7.8	-7.0	1.4	14.1	2.05	4.1	05-26-83	2805.6	38.9	1.1	22.39	44.25	0982
Assoc Hosts	AHST	18.25	17.25	18.25	1.75	10.61	18.25	3.34	.28	1.29	1.93	-5.56	.39	-.07 S	-14.5	-15.0	2.2	44.5	.12	.7	07-05-83	78.6	1.7	1.6	4.40	5.05	0982
Beefsteak Char	BCS	7.88	7.00	7.00	-.75	-9.68	9.75	4.50	-.85	-.09	-1.01	-30.34	.88	.04 S	5.7	34.0	3.7	9.6	.00	.0	00-00-00	97.1	3.6	1.3	5.92	4.23	1082
Bob Evans Farms	BOBE	30.50	29.75	30.25	-.25	-.82	33.00	14.66	-.03	.27	-4.15	20.75	1.11	.02 F	1.8	21.0	6.9	27.3	.30	1.0	05-09-83	187.5	13.0	3.0	.00	6.92	0483
Bonanza Intl Inc	BNZA	6.38	5.75	6.25	.38	6.38	6.88	1.63	1.13	-.05	3.67	-49.31	.11	.17 Q	NC	-81.0	3.1	36.8	.00	.0	00-00-00	16.1	.5	1.6	9.70	1.67	1282
Brock Hotel Cp	BHC	9.25	8.50	8.63	-.50	-5.48	14.50	7.50	-.73	-.18	-.50	29.41	.39	-.31 Q	-52.5	-4.0	2.0	30.8	.10	1.2	06-13-83	259.8	5.1	1.2	11.01	3.90	1281
Calny Food	CLNY	16.00	14.50	14.50	-1.25	-7.94	17.25	5.50	-.31	-2.03	1.65	1.08	.80	.14 Q	20.2	6.0	4.6	17.5	.20	1.4	04-28-83	30.2	1.4	.6	1.01	1.51	0282
Captain Crabs	CRAB	6.00	5.50	5.50	-.38	-6.38	6.63	1.00	.32	.46	-3.36	3.92	.00	.00 S	NC	NC	.0	NE	.00	.0	00-00-00	.9	.0	7.0	.04	.22	0882
Carrols Develop	CRL	18.63	12.88	17.00	4.13	32.04	18.63	3.34	.50	.74	7.21	-61.67	.44	.40 N	93.0	22.0	1.9	20.5	.07	.4	02-02-83	68.6	1.3	.6	6.55	4.00	0582
Chart House	CHHO	37.75	34.50	34.50	-1.25	-3.50	37.75	17.25	.16	-1.71	2.10	2.42	2.08	.05 Q	2.4	13.0	4.9	16.5	.60	1.7	06-24-83	382.0	18.7	.9	14.53	10.14	1281
Chi-Chis	CHIC	34.75	33.13	34.63	-.13	-.36	35.75	8.75	-.11	.81	4.91	-6.10	.55	.34 N	82.9	26.0	11.7	46.2	.00	.0	12-20-82	38.6	4.5	3.0	2.18	2.26	0482
Ch Full O Nut	CHF	24.38	20.00	20.38	-.75	-3.55	24.38	12.50	.37	-3.15	1.05	-29.80	.34	.10 N	25.0	-8.0	1.4	40.8	.40	2.0	12-09-82	115.8	1.6	3.1	.43	5.97	0782
Churchs Fr Ch	CHU	28.75	26.75	27.75	-.25	-.89	29.88	16.75	.11	.09	-1.50	.03	2.19	-.06 S	-2.6	9.0	10.1	12.5	.72	2.6	05-20-83	413.1	41.6	1.8	.62	11.74	1282
Cindys Inc	CNDYC	3.88	3.63	3.63	.00	.00	4.00	2.75	-.02	-.91	.58	26.84	.13	.19 F	NE	NE	2.1	27.9	.00	.0	00-00-00	14.3	.3	.0	4.63	.43	1282
Collins Foods	CF	19.50	17.75	18.75	.63	3.45	19.84	7.50	-.21	-.28	-3.89	-45.36	1.47	.35 F	31.2	16.0	3.8	12.8	.20	1.1	07-01-83	325.5	12.4	1.3	4.96	7.13	0482
Consul Corp	CNSL	18.00	17.00	17.25	-.13	-.72	18.75	5.88	-.26	-.18	1.81	4.49	.26	.26 F	NC	89.0	2.5	66.3	.00	.0	00-00-00	32.4	.8	.7	2.21	2.88	0582
Cracker Barrel	CBRL	25.00	23.25	23.25	-2.00	-7.92	27.34	6.16	-.46	.36	-1.25	-16.85	.69	.21 N	31.8	20.0	3.7	26.7	.13	.6	07-01-83	35.4	1.3	1.9	3.57	4.46	0782
Dennys Inc	DEN	34.50	31.50	31.75	-1.75	-5.22	36.88	22.38	-.11	-.01	2.04	19.06	2.47	.26 N	11.1	9.0	3.9	12.3	.64	2.0	06-06-83	955.7	36.8	1.4	15.81	15.02	0682
Dunkin Donuts	DUNK	25.13	22.88	23.50	-1.50	-6.00	28.75	10.50	-.54	-1.37	2.20	-5.16	1.40	.21 S	16.0	18.0	9.4	15.5	.28	1.2	08-15-83	71.3	6.7	1.2	12.87	15.97	1082
Frischs	FRS	22.00	19.63	22.00	2.00	10.00	22.00	7.94	.67	1.95	6.07	-19.93	1.80	-.27 N	-15.0	12.0	3.8	14.5	.40	1.8	06-28-83	101.0	3.8	1.5	6.23	13.58	0582
Godfathers Pizza	GFPZ	23.38	20.38	22.00	1.00	4.76	25.50	9.63	-.12	1.39	1.52	-1.48	.65	.01 Q	1.5	104.0	15.8	34.4	.00	.0	00-00-00	37.9	6.0	2.1	.55	1.99	1282
Hambrg Hamlet	HAMB	11.75	11.25	11.50	-.50	-4.17	12.00	5.50	.25	-.19	.49	16.67	-1.10	-2.45 F	-181.4	-22.0	-2.4	NE	.00	.0	00-00-00	34.0	-.8	.7	20.45	13.07	0382
Hardwicke	HAWK	1.38	1.13	1.13	-.25	-18.18	2.00	.88	-1.45	.56	-2.57	.00	-12.59	-9.67 Q	NE	-94.0	-89.4	NE	.00	.0	00-00-00	27.4	-24.5	.3	12.03	-4.31	0982
Hilton Hotels	HLT	58.25	54.25	54.25	-4.25	-7.27	60.25	27.63	-.03	-.59	-.59	44.13	3.04	-1.10 Q	-27.9	.0	14.4	19.1	1.80	3.3	05-27-83	562.9	81.3	2.0	6.73	21.31	1282
Holiday Inns	HIA	57.63	51.25	51.88	-5.13	-8.99	59.00	24.50	.04	-.56	-.60	-12.57	2.50	-.18 Q	-6.4	8.0	6.8	20.0	.84	1.6	06-13-83	1425.3	97.2	.9	11.74	25.35	1282
Holiday Inns A	HIA A	.00	1023.97	83.50	.00	.00	84.00	38.50	.25	.44	-10.86	.00	NA	NA	NA	NA	NA	NA	.00	.0	00-00-00	NA	NA	NA	NA	NA	NA
Horn & Hardart	HOR	31.13	26.75	27.00	-2.69	-9.05	32.34	8.72	.10	-1.72	-2.86	-28.39	.74	.23 Q	37.7	38.0	2.8	32.1	.00	.0	07-12-83	235.4	6.6	1.1	9.46	4.77	1282
Hungry Tiger	HTIG	9.50	8.75	9.00	-.50	-5.26	12.25	5.34	-.39	.68	1.21	-2.37	.78	-.07 S	-9.4	7.0	3.8	13.4	.00	.0	11-15-82	55.9	2.1	.6	4.91	5.57	0882
Imperial Grp	IMT	1.94	1.75	1.88	.00	.00	2.06	1.56	-.18	1.01	3.00	-19.34	.47	.00 F	.0	9.0	2.6	4.0	.12	6.4	04-12-83	7742.8	198.3	1.1	.54	1.92	1082
Intl Dairy Queen	INDQ	38.50	35.50	37.00	1.50	4.23	40.00	13.00	-.14	-.35	-4.98	-1.41	2.17	.68 S	36.7	31.0	6.3	14.6	.00	.0	00-00-00	98.6	6.2	1.1	11.23	6.32	1182
Intl King Tab	IKNG	34.00	25.88	32.13	5.75	21.80	34.00	3.50	.49	-.35	.81	-31.50	.33	.98 N	515.7	20.0	1.4	27.5	.00	.0	10-09-79	36.6	.5	.3	4.09	3.77	0682
JBs Rest	JBBB	18.13	17.13	17.13	-.88	-4.86	18.13	5.75	.09	-.75	.41	12.10	.93	.27 S	37.5	13.0	3.5	17.3	.16	.9	05-09-83	45.1	1.6	.9	6.38	5.84	0982
Jerrico Inc	JERR	21.00	19.63	19.88	-.63	-3.05	23.50	12.69	-.44	-.65	.90	8.69	1.40	-.11 N	-7.5	21.0	5.1	14.8	.12	.6	05-09-83	425.5	21.8	.9	2.91	8.99	0682
Kapok Tr Inns	KTI	9.88	9.38	9.38	-.50	-5.06	10.75	3.00	1.35	-.07	-1.03	-51.61	-.37	-.17 S	NE	-46.0	-6.1	NE	.00	.0	00-00-00	11.4	-.7	2.5	1.36	5.45	0982
Kelly-Johnston	KEJO	18.75	15.75	18.75	2.88	18.11	24.50	10.34	-.12	4.39	9.46	10.69	.40	.02 F	5.2	66.0	5.9	46.9	.00	.0	10-13-82	40.8	2.4	.9	.89	4.40	0382
Karcher Carl	CARL	34.00	31.50	33.50	2.00	6.35	34.13	9.59	.11	.23	.05	-46.26	1.21	1.43 N	NC	17.0	3.4	23.4	.00	.0	02-16-83	200.6	6.9	1.9	5.15	6.67	0182
Lubys Cafe	LUB	32.75	30.88	31.75	-.13	-.39	33.25	20.50	.12	.53	-.52	20.28	1.35	.18 N	13.8	20.0	9.1	21.5	.48	1.5	06-06-83	127.3	11.6	1.9	.64	6.79	0882
Marcus Corp	MRCS	14.38	13.38	13.38	-1.13	-7.76	15.13	6.75	-.31	-.82	-1.91	-44.27	1.13	.06 N	5.1	4.0	5.7	11.0	.25	1.9	07-01-83	103.8	5.9	.8	2.98	9.76	0582
Marriott Corp	MHS	77.75	73.75	75.00	-1.00	-1.32	81.00	33.25	.02	.57	-.97	8.89	3.44	.43 S	13.0	23.0	3.7	20.2	.36	.5	06-20-83	2541.4	94.3	.9	33.49	19.43	1282
McDonalds Cp	MCD	66.50	63.38	64.00	-1.50	-2.29	74.50	45.69	.10	.01	-3.35	-3.57	5.00	.65 Q	14.5	17.0	11.1	12.5	1.00	1.6	05-24-83	2715.2	300.6	.5	17.62	25.51	1282
Morrison Inc	MORR	21.88	21.13	21.25	-.25	-1.16	22.13	11.25	.63	.04	-3.82	-3.83	1.41	.25 F	21.5	9.0	4.4	15.1	.40	1.9	08-01-83	421.5	18.7	1.4	2.95	7.90	0582
Mr Steak	MSST	9.50	8.75	9.50	.13	1.33	10.50	1.75	-.56	1.29	-4.27	42.10	-.98	-.42 S	NE	-38.0	-2.7	NE	.00	.0	05-29-80	59.8	-1.6	1.1	4.26	3.76	0982
Nathans	NATH	2.25	2.25	2.25	-.13	-5.26	2.75	.72	-.85	.56	-7.31	-3.05	.03	.80 N	NE	NE	.6	22.5	.00	.0	09-09-82	16.7	.1	.5	.10	1.73	0382
Naugles	NAUG	31.00	29.50	31.00	1.50	5.08	31.75	10.13	-.20	1.01	4.80	12.28	.78	.83 N	NC	47.0	3.9	37.3	.00	.0	11-01-82	55.8	2.2	.4	8.04	2.73	0682
Oakbrook Cons	OKCO	15.25	15.00	15.25	.00	.00	18.50	9.00	-.02	.46	15.41	21.88	.69	-1.12 S	-82.9	-29.0	.4	66.3	.32	2.1	06-09-83	143.6	.6	.6	3.82	13.85	0982
Orange-co	OJ	6.50	5.63	6.00	.25	4.35	7.88	4.38	-.41	-.25	.02	-1.92	-.25	-1.94 S	-192.0	-28.0	-.8	NE	.00	.0	02-22-82	74.0	-.6	1.3	13.28	4.63	0882
Peoples Rest	PEPL	15.13	13.38	14.38	.63	4.55	15.13	5.50	1.33	-.77	5.76	-20.33	.19	.20 N	NC	81.0	13.8	71.9	.00	.0	00-00-00	5.8	.8	.5	.75	2.39	0682
Piccadilly Caf	PICC	17.63	17.25	17.25	-.25	-1.43	18.13	13.50	.19	-.05	-1.23	-30.00	1.39	-.36 N	-25.0	9.0	5.9	16.0	.60	3.5	06-09-83	142.6	8.4	1.9	.00	7.29	0682
Pizza Inn	PZA	15.38	13.97	15.25	.38	2.52	15.38	4.09	.97	1.38	2.59	14.27	.55	.21 Q	42.0	4.0	1.3	21.5	.04	.3	07-12-83	135.1	1.7	.9	12.32	6.63	1282
Pizza Time Thea	CHKY	17.50	16.00	16.25	-.50	-2.99	28.00	14.25	-1.79	-1.65	-1.99	5.60	1.27	.33 Q	40.2	29.0	7.6	14.1	.00	.0	00-00-00	99.3	7.5	1.2	5.53	9.23	1282
Ponderosa Sys	PON	22.88	21.25	22.38	-.50	-2.19	25.25	9.59	-.39	.46	-2.84	-35.53	1.50	.26 Q	20.3	-4.0	2.8	14.5	.33	1.5	06-08-83	376.7	10.4	.8	8.03	12.43	0283
Ramada Inns	RAM	11.25	9.88	10.75	.00	.00	11.88	4.25	.01	1.52	-1.76	-1.05	-.73	-.69 Q	NE	-44.0	-3.6	NE	.00	.0	10-19-81	547.5	-19.9	.6	18.50	5.12	1282
Restaur Assc	RA	9.88	9.00	9.38	.38	4.17	11.38	3.25	-.42	.44	-1.36	-14.88	.77	-.06 Q	-8.2	22.0	1.8	14.0	.00	.0	00-00-00	104.8	1.9	1.0	3.98	7.15	1282
Ryans Fam Steak	RYAN	28.25	24.50	24.50	-.50	-2.00	28.25	3.09	1.20	-1.82	1.56	23.93	.33	.06 Q	20.0	68.0	10.6	68.1	.00	.0	04-20-83	9.4	1.0	3.1	.34	1.61	1282
Saga Corp	SGA	39.50	35.00	35.63	.63	1.79	39.50	12.50	.29	-1.62	-.60	-41.39	1.68	.49 N	30.4	41.0	1.9	17.0	.36	1.0	06-02-83	901.0	16.8	.9	4.26	8.86	0682
Sandwich Chef	SHEF	14.00	12.50	12.50	-2.25	-15.25	15.50	11.50	-.42	-1.84	.44	40.74	.77	.75 N	NC	24.0	4.7	16.7	.00	.0	00-00-00	17.0	.8	.6	.50	3.42	0682
Sea Galley	SEAG	14.63	13.88	14.63	.13	.86	14.63	5.50	.55	.94	-4.18	16.59	.02	-.91 Q	-135.8	-33.0	-.6	NE	.00	.0	06-02-81	70.1	-.4	1.3	5.10	4.90	1282
Servico Inc	SRVI	17.75	17.00	17.25	-1.00	-5.48	19.75	7.50	-.21	-.13	-6.25	-16.18	.74	-.79 F	-51.6	42.0	1.5	23.3	.00	.0	07-09-82	138.1	2.1	1.1	65.81	6.21	1282
Shoneys Inc	SHON	26.00	25.25	25.25	-.50	-1.94	27.38	12.66	-.10	.12	.11	-67.88	.86	.25 S	34.7	19.0	5.1	26.0	.15	.6	07-05-83	324.9	16.6	1.0	2.65	5.02	1082
Skippers	SKIP	15.00	14.00	14.00	-1.50	-9.68	15.50	3.16	.00	-.07	-2.09	35.34	.48	.46 S	135.2	16.0	2.6	17.5	.08	.6	03-31-83	38.1	1.0	.5	3.38	6.69	1282
Sonesta Hotel	SNSTZ	16.00	16.00	16.00	.00	.00	16.50	10.50	-.07	.42	1.19	.00	.28	.64 Q	NE	-12.0	.9	26.7	.20	1.3	06-13-83	80.1	.7	1.1	26.22	9.51	1282
So Hospitality	SHOS	6.25	5.25	6.25	.50	8.70	7.50	1.38	.18	3.88	-1.43	11.22	.27	.08 F	42.1	33.0	3.8	23.1	.00	.0	00-00-00	26.3	1.0	1.0	2.29	-.20	0582
Steak n Shake	STAK	9.25	8.13	9.25	1.13	13.85	9.25	2.63	.15	2.07	.23	5.86	.18	.17 S	283.3	37.0	1.4	40.2	.00	.0	05-17-79	57.2	.8	1.1	4.94	2.76	0982
Victoria Stations	VSTA	11.75	11.25	11.38	-.88	-7.14	13.63	5.00	-.13	-.08	-1.56	-36.28	-2.42	-2.77 F	-791.4	-47.0	-7.1	NE	.00	.0	09-19-79	112.3	-8.0	1.0	7.67	10.49	0382
Wendys Intl	WEN	17.25	16.25	16.50	-.88	-5.04	19.63	9.59	-.50	-.02	1.19	10.52	1.13	.15 Q	14.7	13.0	7.3	14.1	.24	1.5	04-29-83	604.3	44.1	.8	2.53	6.50	1282
Webb Del E	WBB	24.13	21.38	21.50	-2.63	-10.88	25.00	6.13	.38	-1.38	-3.57	9.17	.16	-.80 Q	-129.0	-25.0	.5	NE	.00	.0	11-07-80	311.2	1.5	.9	11.32	13.71	1282
Western Steer	WSMP	14.00	13.75	13.75	-.25	-1.79	17.50	8.00	-.96	.62	-.85	29.79	.92	.98 Q	NC	3.0	3.1	14.0	.12	.9	06-03-83	28.8	.9	1.3	6.21	7.23	0283
Winners Cp	WNER	17.13	16.25	17.00	.50	3.03	17.13	6.94	.21	.28	1.61	13.89	.63	.07 Q	12.0	8.0	2.6	26.2	.00	.0	03-10-83	83.1	2.2	.5	7.06	6.43	1282

KEY: NA—Not Applicable NC—Not Calculable NE—Negative Earnings Q-First Quarter S-Six months N-Nine months F-Fiscal year
**—Other than a quarterly multiple resulting from a fiscal year change.*

Data and Table Provided by Media General Financial Services, Inc., Richmond, VA 23261

Vicorp net rises 50% in 2nd qtr.

DENVER—Vicorp Restaurants reported that net profit for the second quarter, ended in May, increased 49.8% over last year's figure to $755,000.

Restaurant sales for the quarter were up to $12 million, a 36.4% gain over last year. Revenues, which include franchise fees, were $14.2 million, a 30.3% increase.

For the first 26 weeks of the fiscal year, net profits were $1.3 million, a 56.9% change from the first half of last year.

Restaurant sales for the 26-week period were $24.8 million, a 39.4% increase, and revenues were $29.2 million, a 31.4% increase.

There were 191 restaurants (128 franchised and 63 company-operated) at the end of the second quarter, compared to 171 last year.

Those figures do not include the 59 Poppin Fresh Pies restaurants acquired from The Pillsbury Company in May for $16 million cash and $800,000 in deferred payments.

Poppin Fresh Pies and Village Inn restaurants will be Vicorp's major restaurant concepts. In the last fiscal year the 59 Poppin Fresh Pies restaurants had sales of $56.6 million.

To help pay for the acquisition of those restaurants Vicorp sold 880,000 shares of common stock in late May (at a price of about $25.62 a share) and earned more than $21 million. Of that, $15 million was used to repay short-term debt incurred in the purchase from Pillsbury, and the remainder was expected to be used to upgrade the 59 restaurants over the next two years.

EARNINGS REPORT

Company	Period	Period Ended	Total Sales*	% Change	Revenues*†	% Change	Net Income (Loss)*	% Change
Skipper's Inc.	3 mos. 6 mos.	6/12			$ 11.7 22.2	31.0 34.5	$ 0.551 0.990	114.0 270.0
Morrison Inc.	3 mos. 12 mos.	5/28			110.5 421.5	16.0 15.0	5.600 18.700	16.0 19.0
Shoney's	3 mos. 6 mos.	5/15			91.4 199.8	22.0 24.0	5.470 10.600	26.0 14.0
Pancho's Mexican Buffet	3 mos. 6 mos.	3/31			5.7 11.6	— 2.0	0.222 0.394	41.0 37.7
General Mills Restaurant Group	12 mos.	5/29			984.5	17.0	80.000	1.0
Vicorp Restaurant	3 mos. 6 mos.	5/1	$12.0 24.8	36.4 39.4	14.2 29.2	30.3 31.4	0.755 1.300	49.8 56.9
1 Potato 2 Inc.	4 mos.	5/25			2.0	99.0	(0.191)	—
Pizza Ventures	3 mos.	4/3			16.4	113.0	0.755	109.0

Source: *Company earnings reports*

—loss in corresponding period

**In millions*

†In cases where companies do not break out their total sales for all units, revenues are indicated instead. These generally consist of company-owned restaurant sales, franchise fees and rental incomes, royalties and operating income, as well as other miscellaneous incomes, such as interest income and gains on real estate and construction.

Pancho's Mexican Buffet earnings up 41% in 2nd quarter

FORT WORTH—Pancho's Mexican Buffet, operator of three Mexican-style restaurant concepts, said that net profit for the second quarter was up 41% over last year's figure, to $222,309.

Revenues, however, dropped slightly during the quarter, compared to last year, to $5.7 million.

For the first six months of the year profit was up 37.7% to $393,794, compared to the same period last year. Revenues increased about 2% to $11,565,526.

The company said that the Spanish Galleon restaurants had lower unit volumes during the quarter and that one of the units had been closed.

But it also said that Pancho's Mexican Buffets had "very good volumes and excellent profitability."

The company also operates Emiliano's Restaurante y Cantina.

Southern Hospitality plans public offering

NASHVILLE—Southern Hospitality Corp. said that it was proposing a public stock offering of 2.2 million shares.

Proceeds would be used to reduce debt and expand company restaurant operations.

The company would not speculate on the amount it hoped to net from the sale of stock.

This Nashville-based corporation operates 43 restaurants in Tennessee: 24 Wendy's, 12 Mr. Gatti's Pizza, five Ireland's and two Tempo's.

The announcement was made by chairman and chief executive R. Wayne Oldham.

Skipper's net profit jumps 114%

BELLEVUE, Wash.—Skipper's Inc. has achieved a 114% increase in net profit to $551,000 for the unaudited 12-week second quarter ended June 12, compared to the same period last year. Revenues for the period were up 31% over last year to $11.7 million.

For the 24-week first half, net profit was up 270% to $990,000 on a 34.5% gain in revenues to $22.2 million, compared to last year.

Television promotion of a new $3.69 Skipper's Platter item during the quarter was a key to improved results, said president and ceo James Stone: "The success of our new seafood platter can be explained very simply. It offered our customers quality, quantity and price. In other words, a good value."

While he expects solid results for the 139-unit chain in the second half, senior vp Chris Lesourd said similar triple-digit percentage gains over last year would probably not occur in the balance of 1983. Last year's second half was strong, especially in the fourth quarter, as a result of menu modifications which included larger portions of fries.

Menu expansion so far this year has continued the trend toward higher store volumes, up from about $360,000 last year to a current annualized level of about $400,000. A $3.29 salmon basket was rolled out in the first quarter, followed by the Skipper's Platter of fish, shrimp and clams in the second period. The platter item evolved out of a $4.59 high-ticket combo which included scallops. The combo, too high priced for Skipper's target market, has been phased out.

Shoney's net increases 26% in second quarter

NASHVILLE—Shoney's reported that its second quarter, ended May 15, was the 96th consecutive quarter in which revenues and profits were higher than the same quarter the previous year.

Net income for the quarter increased 26% to $5.47 million, while revenues went up 22% to $91.4 million.

For the first half of this fiscal year, net income rose 14% to $10.6 million, on revenues of $199.8 million, a 24% increase.

The company opened 30 new stores during the first half: six Shoney's, 12 Captain D's, and 12 Lee's Famous Recipe. At quarter's end the company had 1,023 restaurants in operation (406 company-owned and 617 franchised).

In April Shoney's netted $18.39 million from the sale of 750,000 shares of common stock at $26 a share.

Kelly-Johnston acquires Duff's Smorgasbord for $16M

By Rurick Telberg

OKLAHOMA CITY—In a startling move one insider called "the mouse swallowing the elephant," a 23-unit Chi-Chi's Mexican dinnerhouse franchisee is acquiring a 133-unit, Ohio-based cafeteria chain.

Kelly-Johnston Enterprises Inc., Chi-Chi's biggest franchisee, is offering 934,565 shares of common stock to the owners of Duff's Enterprises Inc., of Fairfield, Ohio, which owns 24 and franchises another 109 smorgasbord cafeterias.

When the agreement in principle was signed, Kelly-Johnston's stock was trading at about $17.50, valuing the merger at $16.4 million. The transaction was expected to close later this month.

With about 6.4 million Kelly-Johnston shares outstanding before the merger, sellers at Duff's could end up with almost 15% of the Oklahoma City firm.

Duff's is one of the fastest-growing cafeteria chains in the nation (story, *Chain Analysis/Part 1*, page 120). And partly due to Kelly-Johnston, Louisville-based Chi-Chi's Inc. has also shown sharp expansion (story, *Chain Analysis/Part 1*, page 110).

Duff's franchisees flocked to Kelly-Johnston's Oklahoma City headquarters the day the agreement was disclosed because Kelly-Johnston offered in addition to buy back several territories.

"They are landing every 45 minutes. There's a line outside my door to talk terms," said Joe Johnston, Kelly-Johnston president.

The deal means a quantum leap in size for Kelly-Johnston, immediately doubling its revenues and earnings and changing its main role from that of a franchisee to franchisor.

For Duff's, it cuts short plans executives had to take the chain public themselves later this year or early next year.

But it also offers Homer Duff, the chairman who founded the chain in 1967 with his wife, and other owners the chance to cash in at a higher price, sooner.

Kelly-Johnston said the current Duff's management, led by Brett Hutchins, president, had agreed to continue in their posts.

The company also said that expansion plans of both divisions would remain intact.

Duff's had planned, largely via its franchisees, to open about 25 new units this year. Kelly-Johnston has Chi-Chi's restaurants in only nine of the 11 Sunbelt states for which it owns franchise rights.

"This is a real good marriage," said Hutchins. "We all get along very well personally."

Mike Kelly, Kelly-Johnston's chairman, commented, "Duff's is a super concept."

Kelly's and Johnston's familiarity with Duff's dates back to 1977. "When we were considering restaurant concepts," Johnston said, "we looked at both Chi-Chi's and Duff's. We went with Chi-Chi's, I think, because we understood the marketing better."

In Duff's first quarter ended March 27, net profits surged 134% to $343,500 and revenues slipped 28% to $9.9 million, from the year-ago period.

In the fiscal year ended Jan. 2, Duff's posted systemwide sales of $165.1 million, a 37% boost over 1981, as 16 new smorgasbords came on line to total 137 at year-end.

At the same time, Duff's net profits jumped 34% from the year before to hit $1.6 million as revenues edged up 6%.

Pizza Hut realigning its executive staff

WICHITA—William Gagg has been named senior vice president of field operations at Pizza Hut, as part of a major realignment of top executive positions.

Gagg, the 37-year-old former central division vice president, replaces Jeff Jefferson, who resigned to become president of Luther's.

He will be responsible for all company restaurant operations—more than 1,800 stores as of mid-July—and report to Pizza Hut president Arthur Gunther.

His former position is being filled by Gene Wilson, who was Allegheny region manager.

Before Jefferson's departure, Donald Smith, who was president of PepsiCo's food-service division (parent of Pizza Hut), resigned to become chief executive officer of Chart House.

On top of that, Jonathan Prinsell, who was Pizza Hut's vice president of field administration, suddenly disclosed last month that he was resigning to become a Pizza Hut franchiseee.

Prinsell's position has been eliminated and its three major components have been delegated to other Pizza Hut executives.

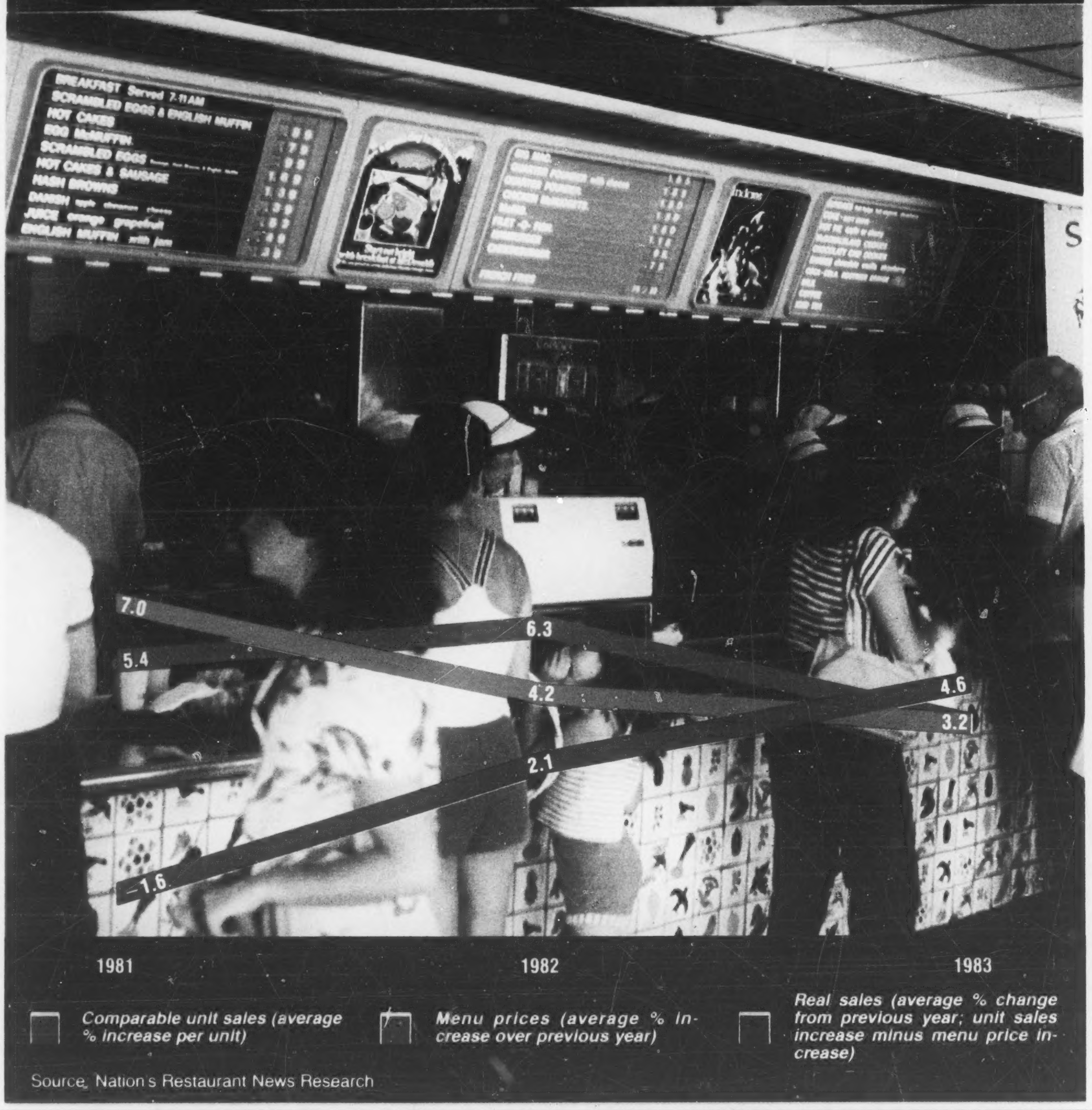
Fred Reynolds, vice president of finance, will be responsible for purchasing; Roger King, vice president of personnel, will take care of training, and Bud Gates, senior vice president of marketing, will head research and development.

There was speculation that Pizza Hut president Gunther would be leaving, but this was apparently untrue. Mike Jenkins, a company spokesman said Gunthur told a meeting of executives last month: "Don't look for it to happen in the near future because I'm having too much fun."

NRN CHAIN ANALYSIS/PART 1

THE TOP 100

Key Chain Performance Indicator
(Composite Averages for 30 Selected Chains)



Source: Nation's Restaurant News Research

MAJOR CHAINS PREDICTING REAL SALES GROWTH

NRN Special Report

Major food service chains expect to show real sales growth (average comparative unit sales growth minus menu price rises) ranging up to 4.6% and higher this year, according to a comprehensive *Nation's Restaurant News* survey based on 30 of the top 100 volume chains.

This would indicate the recession indeed is over and a clearcut upswing is in motion—at least in the minds of the operators. This psychological fact alone, along with rising consumer confidence, could help boost customer counts.

But it well may be that the chains are being overoptimistic on some of their 1983 projected unit sales increases and that the final figures won't be as high.

In any case, the specially surveyed chains are projecting an average 7.8% comparative unit sales rise this year. Comparative average sales climbed 6.3% last year.

Most significantly, there has been a steady acceleration of comparative unit sales each time the chains have reduced their menu price rises.

A 7% average menu price rise for these chains in 1981 resulted in only a 5.4% comparative sales gain (and an actual 1.6% real sales dip). A decreased 4.2% average menu price hike in 1982 led to a 6.3% comparative unit sales boost and a 2.1% real sales increase. If the 1983 projections hold for menu price rises of only 3.2%, a 7.8% average unit sales hike is possible for a 4.6% real sales gain.

The obvious moral: Customer traffic is very responsive, both plus and minus, to the price/value scoreboard as indicated in menu price percentage increases. Since inflation is apparently under control, chains are in a position today to curb their menu price rises

NRN CHAIN ANALYSIS/PART 1

Corporate Ownership of Chains; Chain Diversified Ownership

Allegheny Beverage
Macke

Allied Associate Distillers (London)
Baskin-Robbins

American Airlines
Sky Chefs

ARA Services
Davre's

Bay Bottlers
Magic Pan, Proud Popover

Campbell Soup
Tuesday's, Hanover Trail, Pietro's, McDoogal's, Annie A's

Carlson
TGI Friday's, Country Kitchen, Radisson Hotels

Carson Pirie Scott
Dobbs Houses

Chart House
Chart House Steakhouses, Burger King (franchisee), Luthers', Cisco's

City Investing
Sambo's (part ownership), Servomation, Motel 6, Red Barn

Collins Foods
Sizzler, KFC (franchisee)

Consolidated Foods
Lyons Restaurants

DeNovo
Dog n Suds, B&K fast food, Dairy Isle Restaurants, Tastee Freez

General Foods
GuadalaHarry's, Crock 'n Block, White Spot (All up for sale)

General Mills
Red Lobster, York, Darryl's, Casa Gallardo, Good Earth

Godfather's
Sambo's (franchisor), Riese Bros. (franchisor)

Golden Corral
Sirloin Stockade, Oh! Brian's

Greyhound Corp.
Greyhound Food Mgt., Burger King (franchisee)

Hanson Trust (London)
Interstate United

Hershey Foods
Friendly

H. J. Heinz
Burger King franchisee (Puerto Rico)

Holiday Inns
Perkins, Pipers, Harrah's

Horn & Hardart
Bojangles, Arby's (franchisee), Burger King (franchisee)

Hunt International Resources
Shakey's

Imasco (Montreal)
Hardee's, Burger Chef

Imperial Group (London)
Howard Johnson (HoJo, Ground Round, Chatt's)

International Dairy Queen
Golden Skillet

International Multifoods
Mr. Donut, Boston Sea Party

Jerrico
Long John Silver's, Jerry's

K mart
Furr's

Krystal
Dav-Co (Wendy's franchisee), Po Folks

L. D. Brinkman
Mr. Gatti's

Marriott
Roy Rogers, Gino's, Big Boys, Hot Shoppes, Host International, Casa Maria, Charley Brown's

Morrison
Morrison Cafeterias, Ruby Tuesday

New York Foods
Nedick's

Oak Brook Consolidated
Szabo

Ogden Corp.
Ogden Food

Peoples
Pane Vino

PepsiCo
Pizza Hut, Taco Bell, Häagen Dazs

Pet Inc.
Stuckey's

Pillsbury
Burger King, Steak & Ale, Bennigan's

Ponderosa
Casa Lupita

Ralston Purina
Jack-in-the-Box, Continental Restaurants

Red River Resources
Swensen's

R. J. Reynolds
KFC, Service Systems, Stouffers Food Mgt., Skolnik Bagels

Royal Crown
Arby's

Saga
Stuart Anderson's Black Angus, Straw Hat Pizza, Velvet Turtle, Spoons, Grandy's—pending at presstime

Shoney's
Shoney's Big Boy, Town & Country, Captain D's, Famous Recipe

Stouffer's
Borel (Rusty Scupper)

Taubman Co.
A & W

Trans World
Canteen, Spartan Food (Hardee's franchise, Quincy's Steakhouse), Hilton International

Trust House Forte
Colony Kitchens, Hobo Joe's, Travel Lodge

UAL Inc.
Westin Hotels, United Airlines

VICORP Restaurants
Village Inns, Varieties, The Rose, Poppin Fresh Pies

W. B. Johnson Properties
Waffle House, JP Hotels, Ritz-Carlton Hotels, Pancake Houses

Wendy's
Sisters Chicken & Biscuits

Wienerwald
IHOP, Lums (under creditor control)

Woolworth
Burger King (franchisee)

W. R. Grace
Far West dinnerhouses, Coco's, Jojos, Del Taco, El Torito, Gilbert Robinson (Houlihan's)

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CHAIN ANALYSIS/PART 1: BURGERS

In the throes of the fiercest market share battle ever, fast-food burger chains are pumping more dollars into advertising and touting low-priced specials. The competition for the breakfast market has operators scrambling to roll out chainwide programs.

Reluctance to change gradually eroding huge customer base

McDONALD'S

By Joe Edwards

OAK BROOK, Ill.—McDonald's reluctance to change with the times, combined with increased competition, market saturation and a weak economy, are contributing to a continuing erosion of the chain's customer base.

Customer traffic was off in 1982 for at least the fourth consecutive year and continues on a downward curve this year. Average unit sales for restaurants opened at least 12 months rose only 1.7% to $1.13 million in 1982, before menu price hikes were factored out.

As the increasingly saturated fast-food burger segment develops into a battleground for market share, perceived food quality and value plus the rollouts of innovative new products are becoming more important for national fast feeders. Burger King and Wendy's are discovering the food quality may well be McDonald's Achilles' heel.

They have a point. McDonald's has been stung by the failure of another new menu item, the McChicken sandwich that was rolled out in 1978-79 but removed from most stores earlier this year. The chain has not had a successful nonbreakfast new product since the Quarter Pounder's arrival in 1971; there are reports the Quarter Pounder may be discontinued. It is still to early to tell whether Chicken McNuggets, introduced in 1979, and the McRib sandwich, introduced in 1980, will remain on McDonald's menu.

McDonald's has been hurt, at least in the short term, by Burger King's aggressive and irksome "battle of the burgers" advertising strategy. Wendy's latest ad campaign emphasizes the advantages of that chain's serving system, the quality of its fresh burgers and the shortcomings of McDonald's and Burger King.

There is growing evidence that consumers are disenchanted with processed, frozen and fried foods, the mainstays of McDonald's menu. And there is nothing McDonald's offers to suggest the chain cares about growing consumer demands for foods that are lighter, fresher and healthier than standard fast food, or at least unique tasting.

The brain trust: *At left, McDonald's founder Ray Kroc (sitting) greets admirers. At right, McD chairman Fred Turner (left) with company president Michael Quinlan (center) and chief financial officer Jack Greenberg.*

McDONALD'S

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Systemwide Sales (In Billions)	$7.1	$7.8	$8.6
Revenues (In Billions)	$2.5	$2.7	$3.1
Net Profit (In Millions)	$265.0	$301.0	$346.0
Average Same Store Sales (In Millions)	$1.11	$1.13	$1.15
Average Per Person Check*	$2.60	$2.80	$3.00
Number of Units	6,739	7,259	7,760
% Menu Price Increase	14.0%	7.0%	5.0%

Source: *NRN* Research

**NRN* Estimate

For the first quarter *ended March 31, McDonald's reported a 13% gain in net profits to $65.9 million compared to the same period a year ago. Systemwide sales for the quarter rose 8% to $1.8 billion.*

McDonald's food, in fact, usually ranks third behind Burger King and Wendy's in consumer taste tests. And while other fast-food chains are busy rolling out new products that are innovative (premise-made biscuits, spicy fried chicken, salad bars, chili, croissant sandwiches), McDonald's still serves up the same predictable fare.

In theory, McDonald's two newest menu items, the McRib sandwich and Chicken McNuggets, are exciting and innovative. But in practice, they leave much to be desired. McRib is reconstituted pork that is high in fat and covered with a sugary sauce. McNuggets are flaked white and dark meat chicken pressed into bite-sized pieces and deep-fried.

One reason why the McChicken sandwich sold poorly was that processing rendered the final product very bland. Instead of serving all white meat chicken cut from a breast, as many competitors do, McDonald's combined white and dark meat, flaked it, pressed it into a patty, and fried it. And while chains such as Bojangles and Hardees make fresh biscuits on the premises, McDonald's serves a frozen biscuit.

Publicly, McDonald's officials answer criticisms of their food by saying that 10 million customers a day cannot be wrong; they insist the chain uses only the best ingredients. Privately, food quality seems to be a sore point, as was evident last fall when McDonald's sued Burger King for its ads that claimed consumers prefer Burger King's Whopper to McDonald's Big Mac by 3-to-1.

McDonald's has been criticized lately, too, for slow service; it is not uncommon to wait five or 10 minutes, especially for a Quarter Pounder or other less popular items that are not cooked in advance.

Up next for McDonald's is limited new product action. It is likely that the McChicken sandwich will be reformulated and appear again. There is talk about adding an omelet to the breakfast menu. But nagging questions persist about McDonald's ability to keep its customers happy and remain strong in years to come.

None of this is meant to suggest that anyone at Oak Brook headquarters is pushing the panic button, although Fred Turner, chairman and chief executive, admitted recently that Burger King's comparative ads have caused him some sleepless nights.

McDonald's will continue to dominate the fast-food burger segment simply by virtue of the fact that it has more than 7,259 restaurants in 31 countries and territories—about one domestic restaurant for every 40,000 Americans. Millions of people will continue to patronize McDonald's if only because it is convenient to do so.

McDonald's is the world's largest

(Continued on page 79)

CHECK AVERAGES ON THE RISE

Average Check Per Person

Chain	1981	1982	1983*
McDonald's	$2.60	$2.85	$3.10
Hardee's	2.08	2.10	2.40
Church's	2.68	2.85	3.00
KFC	3.20	3.35	3.50
Popeyes	3.70	3.80	3.90
Bojangles	2.85	2.90	2.99
Arby's	2.12	2.16	2.23
Bonanza	4.15	4.38	4.44
Sizzler (Collins)	5.44	6.12	6.43
Quincy's (Spartan)	4.24	4.57	4.66
Frisch's	3.49	3.43	3.65
Village Inns	3.00	3.40	3.50
Morrison	3.64	3.94	4.17
Luby's	3.49	3.74	3.93
Piccadilly	3.27	3.36	3.49
Chi-Chi's	6.50	7.00	7.50
Ramada Inns (Coffee Shops)	4.64	4.66	4.75

Source: *NRN* Research

**NRN* Estimate

Chain restaurants clearly on the rise

Emerging from the mass of numbers gathered for this year's Chain Analysis is a picture of a chain restaurant industry that is slowly continuing to expand its strong hold on the eating-away-from-home market.

The key statistic documenting this seemingly inexorable movement is noted in the table below. The Top 100's share of total commercial food-service sales for 1983 is projected at 45.8%.

The many charts, tables, graphs in this year's section have another important significance. In total, they paint a rosier real growth picture for the current year than for any recent period.

Though projected comparative unit sales growth appears lower percentage-wise than in some recent years, menu price increases should be even slighter, with resulting real growth.

TOP 100 CHAINS GRAB WIDER MARKET SHARE

	1981	1982	1983*
Total Commercial Food-Service Sales (Billions)	$105.8	$112.8	$122.6
Total Top 100 Volume Chain Sales (Billions)	$45.2	$50.4	$56.1
Top 100's Per Cent Of Total Sales	42.7%	44.7%	45.8%

Source: *NRN* Research

**NRN* Projection

CHAIN/ANALYSIS/PART I: BURGERS

Capturing both attention and patrons with innovative strategy

BURGER KING

MIAMI—Burger King is still the most-talked-about, fast-food burger chain because of its on-going "battle of the burgers" ad campaign. But other moves, less sensational but potentially more important, are being made at the No. 2 burger chain.

With a new executive team headed by Jeffrey Campbell, a 39-year-old marketing expert, in place, Burger King is expanding its presence in institutional markets. The company has signed an agreement to open at least 50 franchised units in Woolworth's general merchandise stores and develop units with Howard Johnson on turnpikes.

Burger King is also opening restaurants on college campuses, military bases and in bus terminals, and has signed Truckstops of America as a franchisee. With saturation a growing problem for fast feeders, such nontraditional sites will take on greater importance in years to come. The chain also plans more international growth; it has only 200 restaurants overseas.

A salad bar is being rolled out nationwide this summer and Burger King, in addition to its current "broiling beat frying" ad campaign, has been promoting its fish, chicken and bacon cheeseburger sandwiches. The chain is also keeping drive-thru windows open very late or around the clock and is keeping its restaurants open past midnight in some areas.

These moves are designed to improve profit margins, which lag at about 15% of sales, at its 3,400 restaurants and to close the average unit sales gap that continues to exist between Burger King and its top rival, McDonald's. Burger King reports average franchised units have annual sales of $800,000 and company-owned units $900,000, compared to $1.1 million average unit sales at McDonald's.

Burger King has been trying to close that gap for several years, but it wasn't until the "battle of the burgers" ad campaign was launched last fall that the chain began posting impressive unit sales gains.

Real sales were up between 6% and 16% in the months the ads ran on network TV and Burger King obviously hopes to hold on to some of the new customers who came along to see what all the fuss was about.

Burger King executives are aware, however, that they must develop a unique breakfast menu before the chain catches McDonald's in average unit sales. Breakfast accounts for about 18% of McDonald's total sales. There is no uniform breakfast program in place at Burger King.

The salad bar presents a challenge since they are difficult to operate well and involve high-labor costs. Burger King, which prides itself on food quality, cannot afford a substandard salad bar, especially when Wendy's and Roy Rogers, two other main competitors, are credited with having high-quality salad bars.

Despite all the brouhaha about taste tests in which customers stated a preference for Burger King product, Burger King has a reputation for inconsistent food quality.

There's also a problem of inconsistency at company headquarters. Norman Brinker is the latest top executive to leave after less than a year on the job. He has been replaced as chairman and chief executive by Campbell.

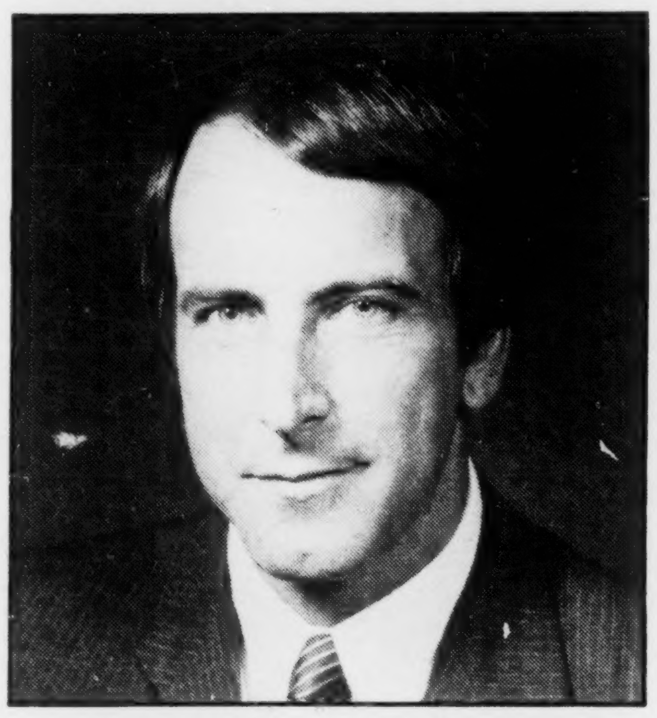
BURGER KING

(Fiscal Year Ended May 31)

	1981	1982	1983	Current Fiscal Year*
Systemwide Sales (In Billions)	$2.1	$2.4	$2.5	$2.8
Average Same Store Sales	$728,000	$751,000	$800,000	$850,000
Average Per Person Check				
Number of Units	3,022	3,255	3,400	3,665
% Menu Price Increase		4.0%	2.0%	

Source: *NRN* Research

**NRN* Estimate



Jeffrey Campbell
chairman, ceo, Burger King

Jerry Ruenheck
president, Burger King

McDonald's
McDonald's
麥當勞

Worldwide penetration: *McDonald's unit in Hong Kong is one of 1,341 overseas restaurants in the chain. Foreign sales topped $1.4 billion in 1982.*

No. 1 chain standing pat; traffic off

McDONALD'S

(Continued from page 78)

food-service organization and controls 7% of the domestic restaurant market, 18% of the fast-food market and 45% of the fast-food hamburger market.

The company's bottom line is healthy (net profits rose 13% to $65.9 million in the first quarter), systemwide sales are strong (they will easily break the $8 billion mark this year), and margins are enviable (about 16% of sales at company-owned units).

Funds from operations rose 18% to $528 million in 1982 and in the 10-year period ended last Dec. 31 the compound annual growth rate in net income was 24%. Nearly 4,200 units reported sales in excess of $1 million in 1982.

Even though unfavorable exchange rates have hurt the profitability of the company's foreign operation, sales at 1,341 foreign restaurants topped $1.4 billion in 1982. With many domestic prime sites gone, McDonald's will open a greater percentage of its 500 annual new restaurants in foreign markets in years to come.

The greatest concentration of McDonald's international restaurants are in Canada (417 units), Japan (346), Australia (137), Germany (169) and Great Britain (96). McDonald's is moving into new markets such as the Far East, Eastern Europe, the Middle East, South America, Central America, Italy, Finland and Norway.

COMPARATIVE UNIT SALES GROWTH FOR SELECTED CHAINS

Chain	1981 Average Unit Sales (000)	1982 Average Unit Sales (000)	Per Cent Change	1983 Average Estimated Unit Sales (000)	Per Cent Change
Jack-In-The-Box	$ 568	$ 613	+ 8.0%	$ 661	+ 8.0%
Collins (KFC Franchisee)	391	436	+11.0	450	+ 3.0
Bojangles	850	1,050	+23.0	1,160	+10.0
Dunkin' Donuts	343	376	+10.0	402	+ 7.0
Straw Hat Pizza	474	499	+ 5.0	520	+ 4.0
Pizza Inn	322	357	+11.0	410	+15.0
Shakey's	425	446	+ 5.0	458	+ 3.0
Bonanza	582	619	+ 6.0	650	+ 5.0
Sizzler (Collins)	708	810	+14.0	865	+ 7.0
Denny's	850	950	+12.0	1,000	+ 5.0
Shoney's Big Boy	1,000	1,048	+ 5.0	1,120	+ 7.0
Furr's	1,530	1,610	+ 5.0	1,720	+ 7.0
Red Lobster	2,000	2,100	+ 5.0	2,200	+ 5.0
Chi-Chi's	2,400	2,500	+ 4.0	2,600	+ 4.0

Source: *NRN* research

CHAIN ANALYSIS/PART 1: BURGERS

Main Marriott growth vehicle racing for No. 5 position

ROY ROGERS

BETHESDA, Md.—In three years, Roy Rogers has grown from a small, low-profile fast-food chain specializing in roast beef sandwiches into a regional hybrid family restaurant giant with more than 600 units clustered along the Eastern Seaboard from Connecticut to Washington.

The metamorphosis will be complete by the end of the year, at which time there will be 458 company-owned and 155 franchised units, about double the size of the chain in 1981. Average unit sales, which are about $950,000 at company-owned units, will get a boost when the long-delayed breakfast menu is rolled out chainwide in the fall.

Roy Rogers is considered by parent Marriott Corp. as the main growth vehicle in the company's diversified restaurant group, which includes 197 company-owned and 980 franchised Big Boy family restaurants; 26 Casa Maria Mexican dinnerhouses; 25 Charley Brown's and Charley's Place restaurants; 7 other specialty dinnerhouses; 12 highway restaurants; 23 Hot Shoppes, and 14 Big Boy Jr.'s.

Marriott's restaurant group reported a 26% rise in operating income to $48 million in 1982 vs. 1981. Sales last year rose about 22% to $547 and are expected to reach $710 million this year.

Roy Rogers itself is the sixth-largest fast-food burger chain behind McDonald's, Burger King, Wendy's, Hardee's and Arby's, and may overtake Arby's for the No. 5 spot in sales by the end of the year.

Though classified in the fast-food burger segment, Roy Rogers has a highly diversified menu; the concept is part fast food, part family restaurant. The top three best-selling menu categories are burgers, chicken and roast beef, with each accounting for about the same per cent of sales.

The chain also offers a salad bar, desserts, and large roast beef and hot ham and swiss specialty sandwiches, which were the latest additions to its menu. Five different breakfast menus including an all-you-can-eat breakfast buffet a la the type that has been successful at some Big Boy units are being tested.

Steve Reinemund, newly appointed Roy Rogers vice president and general manager, says a decision will be made by this fall on which breakfast program will be rolled out systemwide.

First in N.Y.C.: Fast-growing Roy Rogers recently opened its first unit in Manhattan, shown above.

Roy Rogers fast-paced expansion was made possible by Marriott's acquisition last year of Gino's Inc. Marriott is converting 179 Gino's to Roy Rogers and is selling the other Gino's units to chains such as Kentucky Fried Chicken, Pizza Hut and Dunkin Donuts.

Though expansion will slow considerably when the final Gino's is converted later this year, the company expects to continue filling in the gaps in its primary market on the Eastern Seaboard and then expand into other areas, probably the Southeast, through further acquisitions and a stepped-up franchising program.

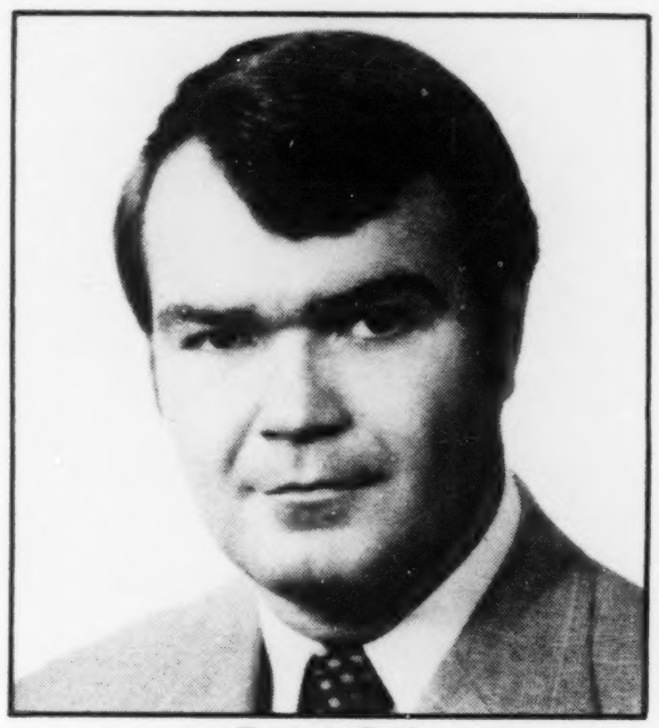
Roy Rogers has penetrated some markets enough to warrant TV advertising. The company has been promoting its fried chicken lately, in part because "with the void created by Gino's exiting, we felt we should emphasize chicken," Reinemund says. Gino's sold Kentucky Fried Chicken products in its restaurants.

Reinemund says he feels the fast-food burger segment is saturated in some areas but quickly adds that "Burger King's recent success shows there's a lot of opportunities in the burger segment."

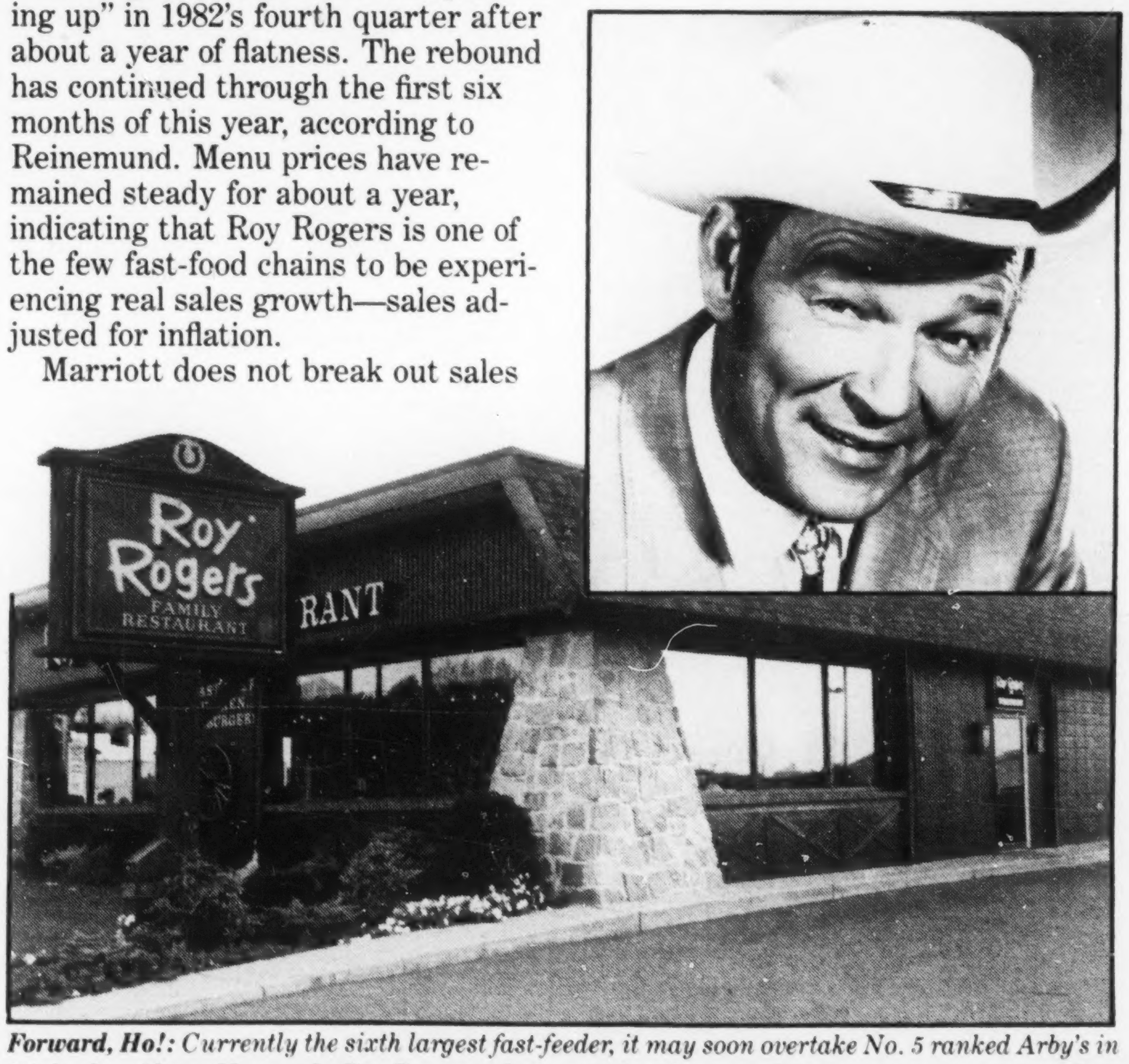
Average unit sales "started perking up" in 1982's fourth quarter after about a year of flatness. The rebound has continued through the first six months of this year, according to Reinemund. Menu prices have remained steady for about a year, indicating that Roy Rogers is one of the few fast-food chains to be experiencing real sales growth—sales adjusted for inflation.

Marriott does not break out sales or profit figures for its individual restaurant chains, but a spokesman says that profits in 1982 improved in all divisions, especially Roy Rogers and the specialty dinnerhouses.

A remodeling program improved sales and profitability at Marriott specialty restaurants, according to a spokesman. Three or four Casa Maria's will be added this year on the East Coast. Profits at West Coast Big Boys have improved slightly. On the East Coast, a new breakfast bar, sandwiches and hot entrees have been added to Big Boy restaurants.



Francis Cash
executive vp, Roy Rogers div.



Forward, Ho!: *Currently the sixth largest fast-feeder, it may soon overtake No. 5 ranked Arby's in total sales. Above: Namesake Roy Rogers, whose occasional personal appearances at store openings always draws big crowds and the press.*

MARRIOTT CORP.

	1981	1982	1983*
Sales (Millions):			
Hotels**	$821.0	$1,091.0	1,400.0
Contract Food Services	$599.0	$820.0	$1,100.0
Restaurants***	$446.4	$547.0	$710.0
Theme Parks & Cruise Ships	$95.0	$82.0	$100.0
Total Sales (Billions)	$2.0	$2.5	$3.3
Net Income (Millions)	$86.0	$94.3	$104.0
Operating Income (Millions):			
Hotels	$115.0	$133.0	
Contract Food Services	$45.5	$51.0	
Restaurants	$38.5	$48.0	
Theme Parks & Cruise Ships	$17.7	$20.0	
Total Operating Income (Millions)	$219.0	$252.0	
Number of Units:			
Hotels**	98	118	130
Hotel Rooms**	40,554	49,600	54,700
U.S. Flight Kitchens	45	51	51
International Flight Kitchens	25	24	24
Airport Concessions	27	45	45
Nonairport Merchandise Shops	†	5	5
Business Feeding	115	140	150
Health Care Feeding	94	99	110
School Feeding	22	20	20
Highway Restaurants††	14	14	12
Big Boy†††			
Company	197	197	197
Franchised	955	980	980
Roy Rogers††††			
Company	238	326	458
Franchised	97	112	155
Hot Shoppes	24	23	23
Big Boy Jrs.	14	14	14
Casa Maria†		22	26
Charley Brown's & Charley's Place†		22	25
Other Specialty Restaurants†		7	7
Theme Parks	3	2	2
Cruise Ships	3	3	3

Source: *NRN* Research

**NRN* Estimate

**Includes all domestic and foreign hotels, resorts and franchised inns.

***Food and beverage sales at hotels are included in hotel sales.

†Marriott Corp. acquired Host International in 1982. Host owned and operated airport concession stands, specialty dinnerhouses, flight kitchens and hotels, all of which have been integrated into Marriott.

††Marriott Restaurants are situated on toll roads in Delaware and New Jersey and are operated by the Food-Service Management division. Two of those restaurants have been converted to combination Big Boy coffee shops and Roy Rogers fast food are now under the Restaurant Group.

†††About 375 franchised Big Boy restaurants do not pay franchise fees to Marriott because of the way the original franchise contracts were written prior to Marriott's acquisition of the chain in the 1960's. There are about 20 different Big Boy operators in various parts of the country.

††††Marriott acquired Gino's Inc. in 1982, which included 313 Gino's fast-food units, 45 franchised KFC units, 112 Rustler steakhouses, and 70 closed restaurants. 179 Gino's will have been converted to Roy Rogers restaurants by the end of this year. It has sold 69 Gino's-KFC units to KFC Corp. and the Rustler units to Tenly Enterprises and Sizzler. The remaining units are for sale. Roy Rogers average per person checks are about $3.25, the same as last year. Menu prices were increased about 7% in 1982 but will not be raised this year.

In the first quarter *of 1983 ended March 25, Marriott Corp. reported a 14% gain in net profits to $19.2 million on a 23% rise in systemwide sales to $635 million.*

BEST AVAILABLE COPY

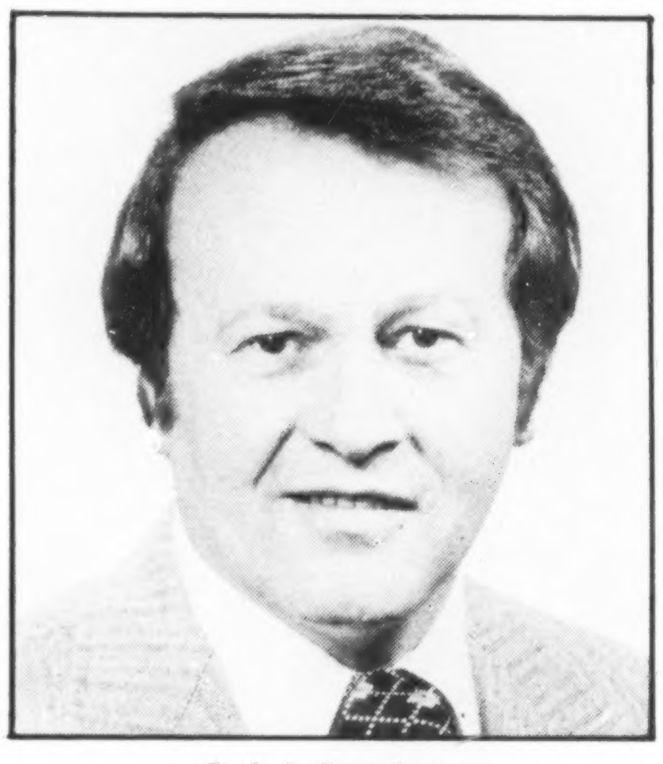
CHAIN ANALYSIS/PART 1: BURGERS

New No. 3 burger chain seeking to broaden its market

HARDEE'S

ROCKY MOUNT, N.C.—As franchisees of 300 remaining Burger Chef units ponder whether to join the Hardee's system, Hardee's executives here are considering menu changes to broaden their market.

Specialty sandwiches, some of them adopted from Burger Chef, have been the biggest boosters of sales-per-store increases. Comparable unit sales are running 13% over year-ago levels at Hardee's units—$745,000—including a bare 1% menu price hike.



Jack A. Laughery
president, Imasco U.S.A.

Hardee's is now getting significant volume from its roast beef, ham and cheese, fish, chicken and breakfast sandwiches. Executives reportedly feel it's time to upgrade the hamburger offering. Already they have borrowed the chicken sandwich and mushroom burger from Burger Chef.

Meanwhile, many Burger Chef franchisees are clearly unconvinced that they should convert their stores to Hardee's.

A year after Hardee's took over Burger Chef, only 28 franchised Burger Chefs had been made over. Another 87 had left the system altogether. And Hardee's now seems in danger of losing a block of franchised Burger Chefs in northeastern Ohio, where the operators run competing concepts.

Nevertheless, Hardee's had converted all but 81 of 250 company Burger Chefs by the end of fiscal 1983 in March. And by June, only franchised Burger Chefs were left. On that basis alone, Hardee's clearly got its $44 million worth.

Hardee's puts conversion costs at $70,000, but franchisees estimate that some of their units, the older ones, could cost up to $135,000 to convert. Sales, they say, taper off to preconversion levels after an initial surge.

Yet Hardee's remains healthy. Its marketing plan, adjusted in the last two years, calls for broadening its appeal past the 25-45-year-old market. It has had great success with special children's packages, which it borrowed from Burger Chef.

HARDEE'S

(Fiscal Year Ended March)

	1981	1982	1983	Current Fiscal Year*
Systemwide Sales (In Billions)	$0.9	$1.1	$1.7	$1.9
Revenues (In Millions)	$433.3	$537.1	$806.8	$915.9
Operating Profits (In Millions)	$33.0	$42.0	$60.3	$68.7
Average Same Store Sales**	$600,000	$660,000	$745,000	$864,000
Average Per Person Check**	$2.07	$2.08	$2.10	$2.14
Number of Units				
Hardee's Food System	1,304	1,425	1,736	1,967
Company	467	515	729	835
Franchised	837	910	1,007	1,132
Burger Chef System		700	380	299
Company		250	81	0
Franchised		450	299	299
Specialty Food Service	34*	40*	38*	38
% Menu Price Increases**	0.0%	0.0%	1.0%	2.0%

Source: *NRN* Research **NRN* Estimate **Hardee's units only*

Imasco U.S.A. *is the holding company of Hardee's Food Systems Inc., Burger Chef Systems Inc., Fast Food Merchandisers Inc., a restaurant supplier, and Specialty Food Service, an operator of food-service management accounts.*

Unit projections *assume the size of the Burger Chef franchised system will remain unchanged after all company-owned Burger Chef units are converted to Hardee's.*

Per-person check *and weighted price increase averages assume that breakfast, which yields a lower ticket, will continue to grow as a share of volume.*

In the TV battle of the burgers among Burger King, McDonald's and Wendy's, Hardee's emerged claiming the No. 3 spot from Wendy's in systemwide sales.

Merging Hardee's and Burger Chef has left stretch marks, however. The reorganization of Hardee's into a holding company called Imasco U.S.A. pushed John Martin, president of Burger Chef, to president of the Hardee's division. But Martin left to join Pepsico as head of a bakery company, leaving Jack Laughery, president of Imasco U.S.A. as the head of Hardee's again. Jim Chronley remains head of Burger Chef in Indianapolis.

Imasco U.S.A. now accounts for 55% of Montreal-based parent Imasco Ltd.'s revenues and 50% of its operating profits.

Newfound 'big league' image hones Wendy's advertising bat

WENDY'S

WENDY'S

(Fiscal Year Ended Dec. 31)

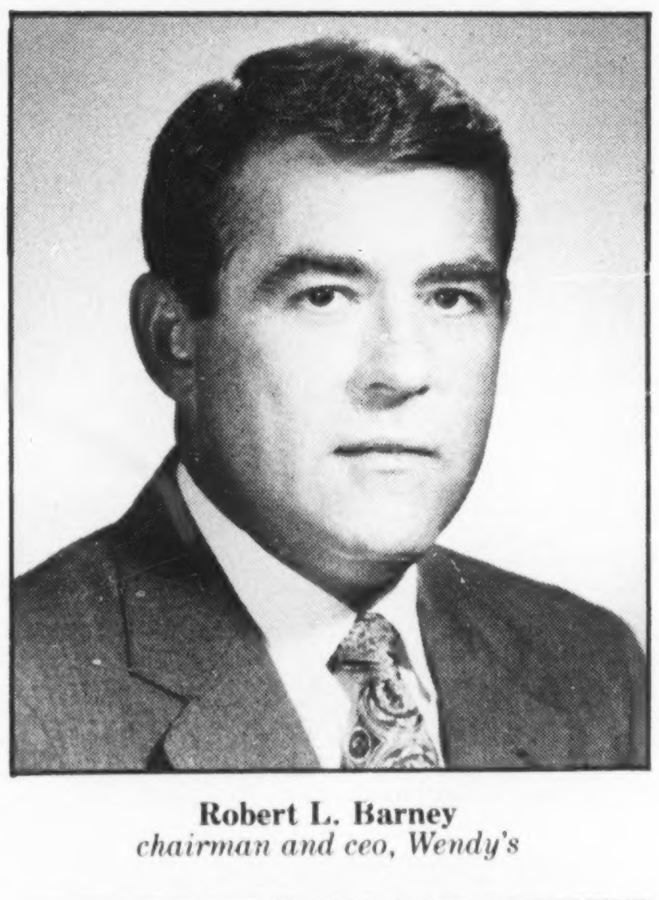
	1981	1982	1983*
Systemwide Sales (In Billions)	$1.4	$1.6	$1.7
Revenues (In Millions)	$489.0	$608.0	$620.0
Net Profit (In Millions)	$36.9	$44.1	
Average Same Store Sales	$674,000	$703,000	$750,000
Average Per Person Check*	$1.95	$2.15	$2.20
Number of Units	2,229	2,430	2,680
% Menu Price Increase	8.0%	3.0%	

Source: *NRN* Research **NRN* Estimate

Wendy's reported *a 25% rise in net profits to $10 million on an 11.6% rise in revenues to $153.5 million in the first quarter ended March 31, compared with the same period a year earlier. Systemwide sales rose 11.3% to $406 million.*

DUBLIN, Ohio—One of the many sidelights of the "battle of the burgers" has been Wendy's sudden arrival in the "big leagues" as far as consumer perception is concerned. Even though Wendy's has been a major competitor in the fast-food burger segment, consumers never believed the chain was as big as McDonald's or Burger King.

It's not, but thanks to Burger King's ads last fall and winter which mentioned Wendy's and McDonald's, that has changed. And now Wendy's is trying to capitalize further on its newfound reputation by waging an ad war of its own.



Robert L. Barney
chairman and ceo, Wendy's

Wendy's is in the midst of a $75 million ad campaign that, according to William Welter, senior vice president of marketing, will end the burger battle once and for all. Whether that will happen is doubtful, but the ads are allowing Wendy's to score some points against its rivals.

Since its inception, Wendy's has positioned itself as the "quality leader" in the fast-food burger segment. The new ads drive home that point, telling consumers Wendy's makes fresh burgers daily, cooks them to order and provides services and amenities not usually found in fast-food restaurants.

The ads are in keeping with Wendy's strategy to build its market share and give a boost to soft unit sales. The chain's customer traffic has been off and average unit sales rose only 4% in 1982 to $703,000, vs. about $800,000 at franchised Burger Kings and $1.1 million at McDonald's. The 15% rise in systemwide sales and the 24% jump in revenues came from new restaurants and price hikes.

Wendy's has also been displaced as the No. 3 burger chain by Hardee's. Wendy's has several hundred more units than Hardee's, but systemwide sales in 1982 were $1.6 billion, compared with $1.7 billion at Hardee's. Unit volumes at Hardee's are about $40,000 higher than Wendy's.

As it fights to build market share and improve profit margins, which rose to about 18% of sales last year from 16.7% in 1981, Wendy's is offering a more complete dining experience than many of its competitors.

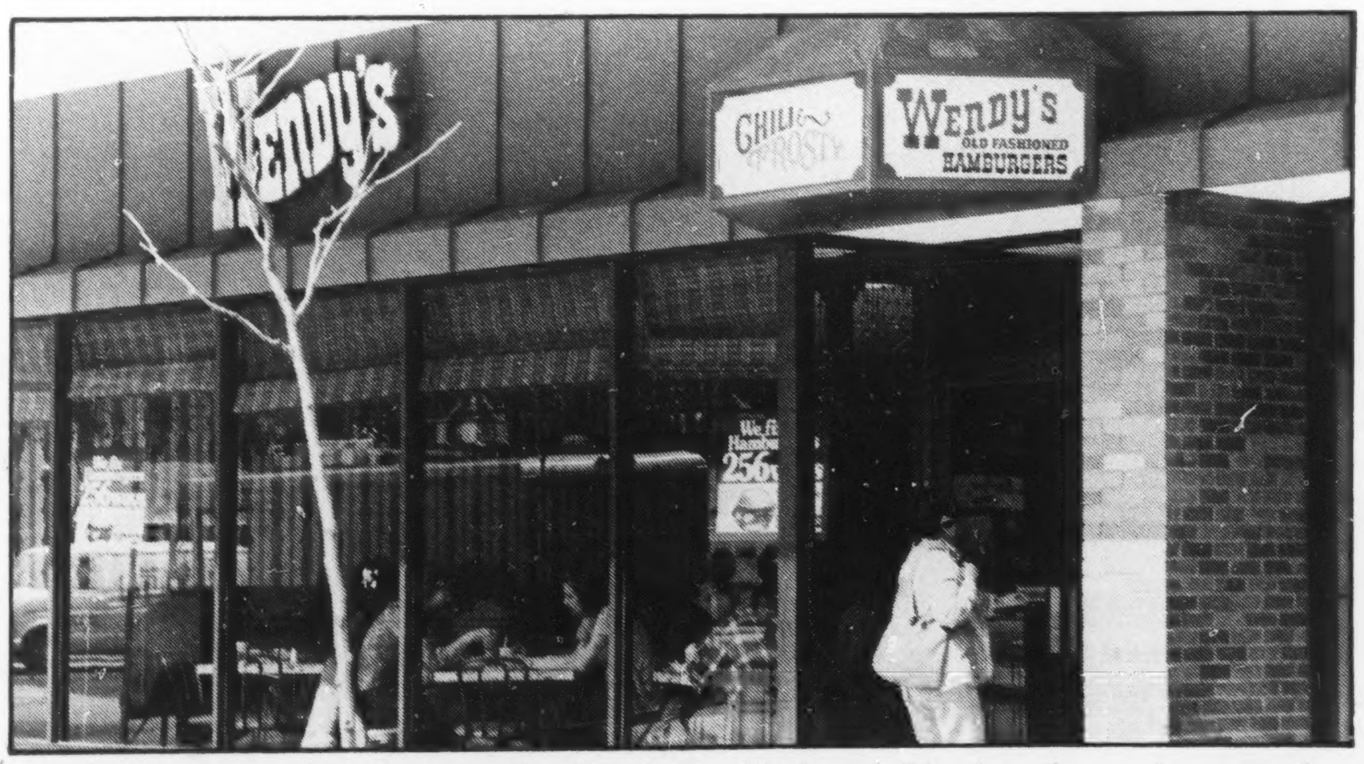
The chain is rolling out a taco salad and has enlarged its salad bar. Nearly 500 units have a new fish sandwich and most offer the low-cost and fast selling chili and a premise-breaded boneless chicken breast sandwich. It also rolled out a bacon cheeseburger earlier this year.

Wendy's is testing dinner platters at 11 restaurants in Cincinnati and is developing a breakfast menu which is offered in some parts of the country. The dinner entrees include chopped beef and mushrooms; chicken parmesan, and country beef and gravy. Each comes with a salad and potatoes.

Several hundred stores have already taken part in an ongoing image enhancement program that includes new signs, exteriors and dining room decor.

Wendy's plans to open 250 restaurants worldwide this year. It still has not made a significant move into overseas markets; of the chain's 125 international units, 70 are in Canada.

Wendy's is also developing Sisters Chicken and Biscuits, an upscale fast-food chicken concept that serves spicy or mild chicken, biscuits, coleslaw, baked beans, cob corn, fried potato wedges, spicy rice, creamed chicken and strawberry shortcake.



The big league: *One of the many results of the "battle of the burgers" has been the growing perception of Wendy's as a "big league" contender by consumers.*

CHAIN/ANALYSIS/PART I: BURGERS

Stiffer competition forcing a sharper marketing focus

ARBY'S

ARBY'S

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Systemwide Sales (In Millions)	$527.0	$575.0	$700.0
Revenues (In Millions)	$70.1	$83.6	$95.0
Operating Profit (In Millions)	$7.9	$7.5	
Average Same Store Sales	$506,000	$517,000	$555,000
Average Per Person Check	$2.12	$2.16	
Number Of Units	1,146	1,218	1,260
% Menu Price Increase	6.0%	2.5%	0.0%

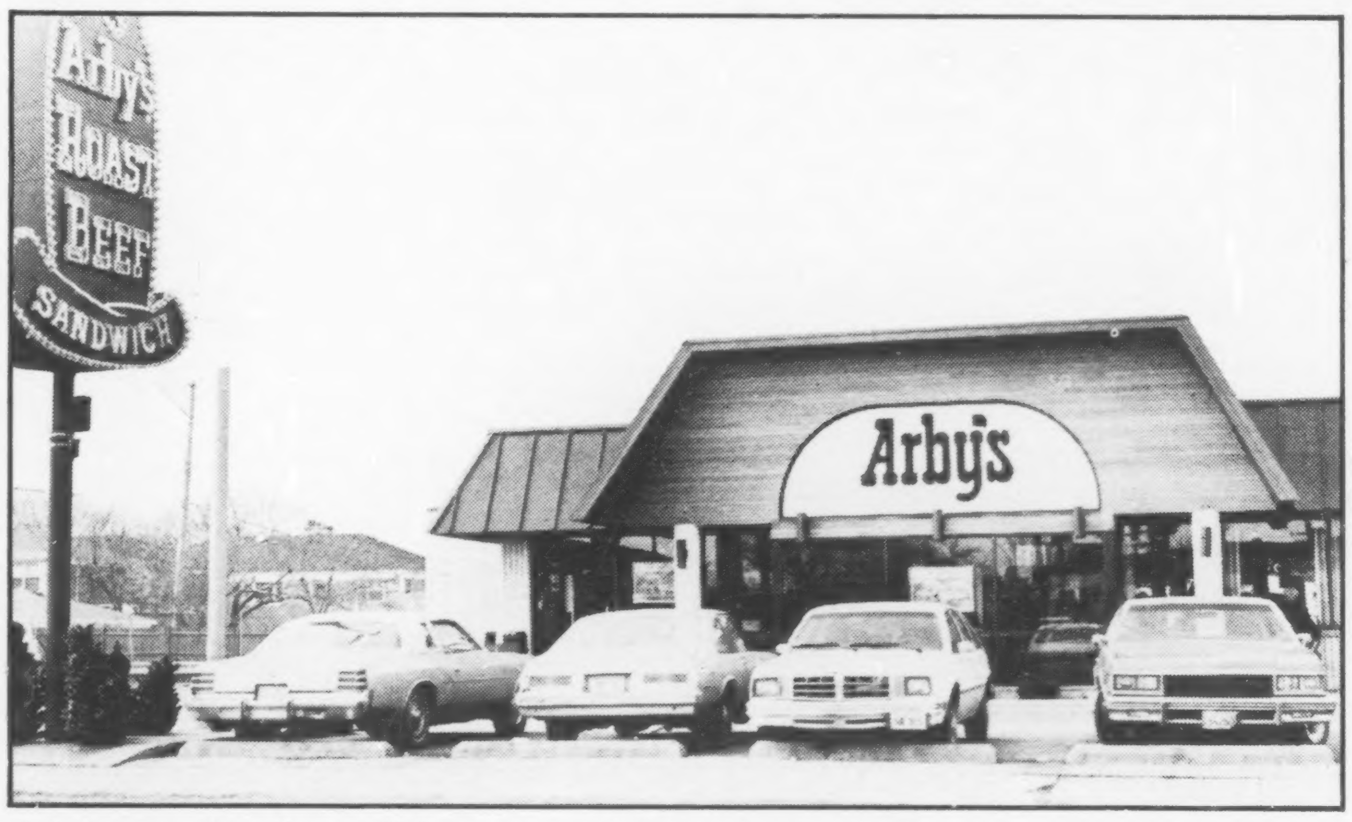
Source: *NRN* Research

**NRN* Estimate

ATLANTA—While Arby's is basking in the glow of growing unit volumes and the past year's successful sandwich rollouts, execs say the coming year will be influenced by the number of chains pushing roast beef sandwiches, still 65% of Arby's menu.

Conversion of Burger Chefs to Hardee's units has increased the number of Hardee's units selling roast beef to 1,736 stores, says director of marketing Larry Krueger, and regional chains such as Rax in the Midwest and Roy Rogers in the Northeast will make it necessary for Arby's to sharpen their marketing tools and break with a new advertising campaign this fall.

Also this fall the chain will add a new specialty sandwich to their line of chicken and deli sandwiches. The new bacon roast beef cheddar sandwich is meant to keep licensees on the promotional high they have experienced since the inception of the specialty sandwiches earlier this year.



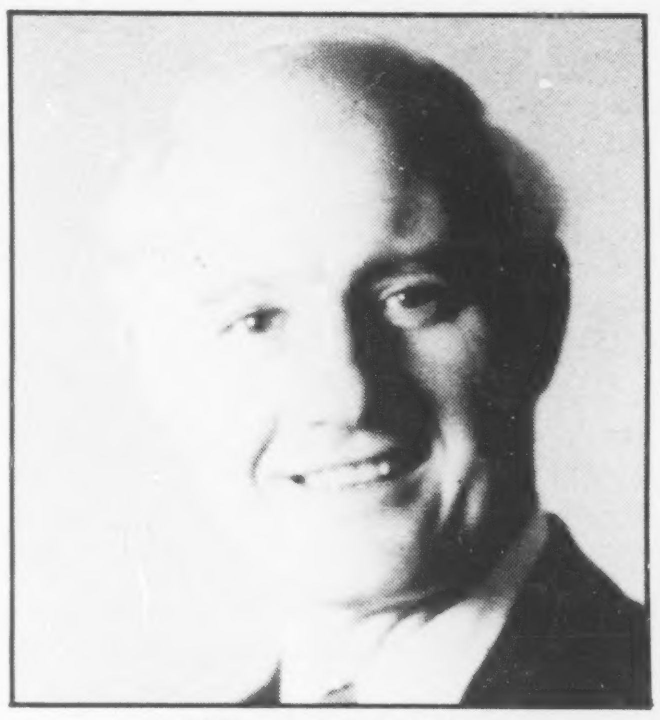
***Arby's expansion plans** call for 75 new units before the end of 1983.*

Last month Arby's rolled out the Adventure Meal, a boxed roast beef and fries package for kids, and advertised it to parents as a convenience item. But new product emphasis for 1983 and beyond will be on barbecued chicken, ribs and accompaniments which have just moved from a single market test to a four market test, but will not be rolled out until 1984, said Krueger.

Expansion plans call for 75 new units before the end of 1983, with roughly a third in smaller markets and two-thirds fleshing out major markets.

Most licensees will not take price increases this year, said Krueger, since past increases have led customers to skimp on high profit items such as fries and drinks.

Average sales per unit are expected to rise from $500,000 to $550,000 for 1983.



Jefferson T. McMahon
president, ceo, Arby's

Dairy Queen mulling nationwide rollout of hard ice cream

IDQ

By Donald Frazier

MINNEAPOLIS—Hard ice cream has finally emerged from the last two years of exhaustive tests to become an official part of the Dairy Queen system.

More than 550 of the chain's 4,770 units in 28 markets—about 11% of the system—now offer the new line of Queen's Choice products.

The line of products can hike unit sales by as much as 10%, according to Harris Cooper, president and chief executive officer. He pointed out that this figure accounts for 2½% to 3% 'cannibalization'—sales taken away from the soft-serve products by the new line.

Dairy Queen

***Hard ice cream** has been rolled out in more than 550 of the chain's 4,770 units in 28 markets—about 11% of the system.*

The small number of crossover customers confirms what was, from the onset, one of the central assumptions of Dairy Queen's hard ice cream program: hard and soft ice cream are not different ends of the same market, but almost totally different markets.

Hard ice cream now appears in several major markets such as Atlanta, Oklahoma City, Kansas City, Cleveland and New York-New Jersey.

But Cooper cautions that several conditions must be met before the program extends throughout the rest of the system. The ability to manufacture and distribute the right product in each market, he said, poses the major hurdle to the further rollout of Queen's Choice in any prospective market over the next year.

Company executives continue to try to decide what to do with the Golden Skillet chain which Dairy Queen acquired last year.

So far, IDQ has consolidated its control over the system under Charles Cocotas, it chief executive officer, established a prototype unit for training purposes near headquarters here, set up a rudimentary regional management structure where there had been none, and gotten rid of more than 35 low-volume units.

Cooper said his company is experimenting with many possible formats for Golden Skillet. He predicts Golden Skillet will emerge as a multi-faceted chain, with three or four formats ranging from the traditional take-out-oriented fast-chicken concept to a sit-down family dinner-house.

"We're now casting about for just the right mix," Cooper said. "We're trying to create a favorable distinction between Golden Skillet and the other chicken chains," he added, asserting that he does not want Golden Skillet to mirror Kentucky Fried Chicken.

He hopes developments at Golden Skillet will allow Dairy Queen to resume franchising the revitalized concept this fall. IDQ's experience as a franchisor was one of the biggest reasons the company thought it could make money from Golden Skillet.

Cooper expects a favorable outlook for interest rates to attract more of the individual entrepreneurs who have, historically, been the lifeblood of the Dairy Queen system.

The chain has declined in units since 1981 as more than 100 low-volume dip-only seasonal shops dropped out of the system.

During the last year, Dairy Queen's brief experiment with combining ice cream and homemade candy fizzled out. Hindered by the death of the Dairy Queen board member who was to have supervised the project in Palm Springs, Calif., the joint-venture was cancelled.

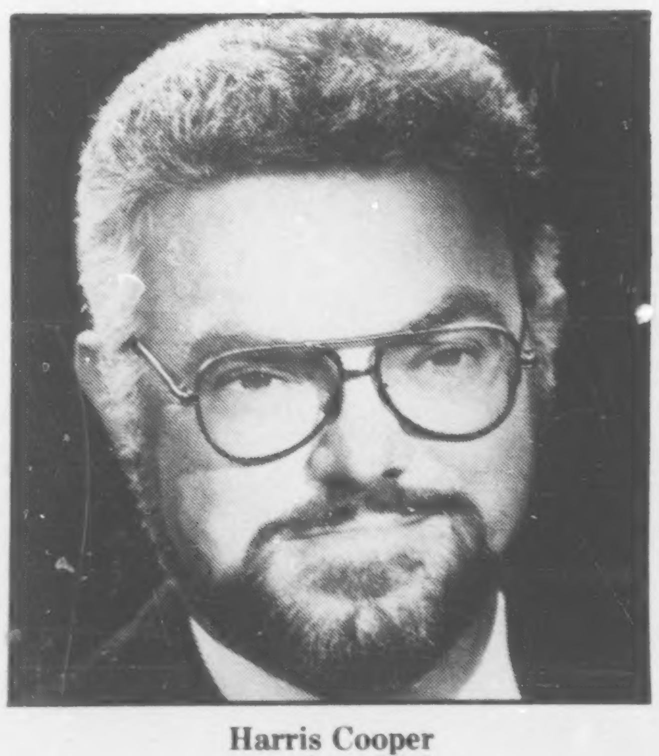
INTERNATIONAL DAIRY QUEEN

(Fiscal Year Ended Nov. 30)

	1981	1982	1983*
Systemwide Sales (In Millions)	$1.1	$1.2	$1.3
Revenues (In Millions)	$93.0	$99.0	$108.0
Net Profit (In Millions)	$5.6	$6.2	$6.8
Average Same Store Sales	$235,000	$252,000	$270,000
Number of Units	4,780	4,754	4,770
% Menu Price Increase	5.0%	3.0%	5.0%

Source: *NRN* Research

**NRN* Estimate



Harris Cooper
president, IDQ

CHAIN ANALYSIS/PART 1: BURGERS

Goodall takes the box in novel directions to build volume

JACK-IN-THE-BOX

SAN DIEGO—Jack in the Box could be planning such novel approaches as "Booze in the Box" for future menu diversification, as it seeks to continue real volume growth beyond industry averages. The Foodmaker Inc. division of Ralston Purina Co. would like to continue a successful program of expanded offerings in its fast-food chain with the start of the next fiscal year in October.

Application for a beer and wine license at a Jack in the Box unit in Honolulu could signify an eventual course to be followed by other outlets of the 780-unit chain.

More immediately, however, the newest items being readied for rollout include nachos, nachos supreme, and a shrimp dinner salad, following reportedly successful tests on the West Coast.

The company has boosted evening traffic with introduction of Dinner in the Box items so far this year. The boxed dinners include sirloin steak ($3.79), deep-fried julienne breast of chicken ($2.79), and fried shrimp ($3.29)—all served with wedge fries, garlic bread and salad.

Last year the chain rolled out croissant breakfast sandwich items and a variety of meal-sized salads (chef, taco and chicken).

The menu modifications have helped average store sales close in on the $700,000-a-year mark, while enhancing all-day appeal. Breakfast business has reportedly doubled in the past year, and new morning items are now being devised for future a.m. sales gains.

Increased complexity of food-cost control has been an added burden with the burgeoning menus. To track the performance of new items and to help with inventory control, Foodmaker has committed upward of $17 million to a chainwide deployment of computerized point-of-sales systems in all of its company units.

The POS installations are due to be completed by the end of next month. Franchisees (with about 40 units now, compared to 20 last year) are expected to follow suit. Tests of the new systems show the potential to recover a 32% ROI, or at least a 1.2%-of-sales savings, resulting from more efficient inventory reporting and more rapid turnover in food orders from the kitchens.

Foodmaker president Jack Goodall has also taken steps to market the growing menus, boosting the chain's annual advertising budget by 40% to $35 million. Spot TV, radio and outdoor ads will continue as the principal media vehicles for product promotion. The most recent TV campaign features a tuxedoed pitchman backed up by a strolling violinist, touting the company's more or less unique position in the fast-food sphere as purveyors of legitimate dinner items.

Goodall's store expansion strategy reportedly involves the deployment of from 300 to 400 new outlets over the next five years. Territorial expansion is expected to focus on Western states.

Foodmaker's 80-unit group of full-service restaurants, Continental Restaurant System, has gone through some shifts in expansion planning, with concept changes in a few units.

Emphasis in the dinnerhouse group continues to focus on the casual, broad-menued concept called Carlos Murphy's. With average annual volumes of more than $2.5 million, the 15 or so Carlos Murphy's account for more than one-fourth of CRS's overall volume of about $135 million.

JACK IN THE BOX

Behind the box: *Foodmaker president and ceo Jack Goodall.*

__FOODMAKER INC.__

(Fiscal Year Ended Sept. 30)

	1981	1982	1983*
Systemwide Sales (In Millions)	$578.3	$624.1	$673.4
Fast-Food Units	$455.4	$498.3	$537.7
Full-Service Units	$122.9	$125.8	$135.7
Operating Profit (In Millions)	$43.7	$46.5	$49.5
Average Same Store Sales: Fast-Food Units	$568,000	$613,000	$661,400
Full-Service Units (In Millions)	$1.5	$1.6	$1.7
Average Per Person Check (Fast-Food Units)	$2.70	$2.80	$2.85
Total Number of Units	880	863	855
Fast Food	795	784	775
Full Service	85	79	80

Source: *NRN* Research

**NRN* Estimate

'Little sandwich' line registering gains

KRYSTAL

CHATTANOOGA, Tenn.—Krystal, the 51-year-old company that has survived by successfully marketing a small, low-priced hamburger, sees in its future other menu items.

Still in test is a line of "little sandwiches" (chicken; bacon, lettuce and tomato; hot ham and cheese; bacon cheeseburger; beef and cheese) that sell for less than $1 each.

These sandwiches have been registering sales gains, according to a Krystal executive, but not high enough yet to warrant a rollout.

Krystal is also test-marketing menu items that have not generally been associated with fast-food establishments, items like fried zucchini, fried mushrooms and specialty hamburgers.

The new menu items have found "strong acceptance," according to the executive, but the company will continue monitoring them to see "if it's the right menu combination."

Meanwhile, the company insists its marketing thrust remains the Krystal hamburger. Its new advertising campaign stresses this in the slogan: "Sometimes You Gotta Have One." The promotion emphasizes taste and price-value aspects of the product.

Movement toward the more diversified menu, however, is a sign of Krystal's recognition of a trend among American consumers toward decreased consumption of beef. That and the intense competition within the hamburger segment of the fast-food industry represent the "primary challenges" Krystal faces, the executive says.

The parent Krystal Company has also been looking at the benefits of concept diversification. Long a major franchisee of Wendy's, Krystal last year became the franchisor of Po Folks, one of the hottest restaurant chains in the country. In recent months the Wendy's and Po Folks operations were merged into one subsidiary company.

Gordon Davenport
president, The Krystal Company

Krystal
Hamburgers
Fried Chicken
Breakfast
Krystal

Looking to the future: *While Krystal is testing a line of "little sandwiches," it has no plans to downplay its primary product, the Krystal burger.*

Southland seeks technology to keep food sales soaring

7-ELEVEN

DALLAS—Southland Corp., operator of the 7,200-unit 7-Eleven convenience store chain, is scrambling to buy or develop the technology needed to continue the growth of its fast-food line which now appears ready to top systemwide sales of $1.2 billion a year.

Although isolating food-service sales in 7-Eleven grocery stores is difficult, it is clear that Southland has become a contender among big fast-food chains—McDonald's, Burger King, KFC, Wendy's, Hardee's, and Pizza Hut.

But executives say that in order to move past frozen and microwave-reheated products, they need technology that has yet to be invented.

Nevertheless, 7-Eleven is testing 15 to 20 different food-service concepts, any one of which could be rolled nationally.

Already Southland enjoys considerable price and convenience advantages over mainstream fast-feeders, but consumers still tend to think of eating a meal at a restaurant.

CHAIN ANALYSIS/PART I: CHICKEN

Although still comparative newcomers to the scene, the fledgling chicken and biscuits chains continue to make inroads into what was once believed to be a saturated segment. To counter this, segment leaders are scrambling to broaden a somewhat tired menu mix.

Continued expansion planned in foreign, domestic markets

KFC

LOUISVILLE, Ky.—Scoffing at the suggestion that the fast-food chicken segment is saturated, executives at Kentucky Fried Chicken are celebrating their fifth consecutive year of real sales growth with plans in place for rapid domestic and foreign expansion.

R. J. Reynolds Industries, which acquired KFC's former parent, Heublein Inc., last year, has endorsed the chain's five-year plan and has committed $100 million in cash to pay for the construction and acquisition of units around the world.

"The growth potential of KFC is one of the reasons that the opportunity to acquire Heublein last year was very attractive to us," said J. Paul Sticht, Reynolds chairman and chief executive, in a recent speech. "KFC has been experiencing real sales growth while the rest of the food-service industry stagnated."

Richard Mayer, KFC chairman and chief executive, sees the potential for 50% growth in the number of units over the next five years. This year, KFC will open about 80 new domestic company-owned restaurants and by 1984 will be building 100-150 company-owned units a year. Mayer also sees 500 new company and franchised units opening abroad in the next five years.

KFC commands more than 50% of the domestic fast-food chicken market with more than 900 company-owned and 3,500 franchised units in this country, about 1,400 overseas and another 650 or so in Canada.

Average unit sales at company-owned stores in the United States are closing in on the $500,000 mark, but overall domestic unit sales are still hovering under $400,000. An image enhancement program and the rollout of new menu items is boosting unit volumes, but not all of the franchisees have taken part in the programs as yet, executives explain.

KFC has targeted under-developed international markets for stepped-up expansion. These include Central and South America and the Far East. A key target for expansion is Japan where KFC has nearly 400 restaurants and sees the "potential" for 2,000 more in the next 10 years.

Mindful that the fast-food chicken segment has been identified as a major growth area for this decade, KFC has been fending off increased competition from established chains such as Church's Fried Chicken, with 1,400 units, and Popeyes, with about 350. More importantly, though, there's a whole new generation of fast-food chicken chains that have been taking aim at KFC.

KFC has responded to the competition from chains such as Bojangles, Sisters, Mrs. Winners, Grandy's and Chicken George by rolling out a premise-made biscuit and developing a spicy chicken menu that includes collard greens and "dirty rice" in selected inner-city markets.

After adjustments for inflation, KFC's compound annual sales growth from 1977-82 was 2.4%. Average unit sales rose about 2% in 1982 after menu price hikes were factored out.

KENTUCKY FRIED CHICKEN

(Fiscal Year Ended December†)

	1981	1982	1983*
Systemwide Sales† (In Billions)			
Domestic	$1.6	$1.7	
International	$624.0M	$666.0M	
Total	$2.2	$2.4	$2.5
Average Store Sales**			
Domestic	$368,483	$383,449	$422,000
International	$496,395	$496,119	$520,000
System Average	$396,493	$409,470	$450,000
Number of Units***			
Domestic	4,481	4,442	4,522
International	1,297	1,387	1,500
Average Check Per Transaction††	$3.20	$3.35	$3.50
% Menu Price Increase††	12%	3%	5%

Source: *NRN* Research

**NRN* Estimate

†All figures contained in this chart have been restated for calendar years. KFC's former parent, Heublein, was on a June 30 fiscal year until it was acquired by R. J. Reynolds last summer. Reynolds is on a calendar year.

††Average check and % menu price increases are estimates for company-owned units only.

**The vast majority of KFC's restaurants are franchised. The 937 company-owned domestic units had average store sales of $468,000 in fiscal 1982, ended June 30, 1982, and are now about $500,000. Domestic franchised units report average sales of about $360,000.

***KFC has about 650 restaurants in Canada that are not included in these figures. The number of KFC restaurants worldwide, including the Canadian operations, is about 6,500.

Kentucky Fried Chicken
THANK YOU
Exit

This year KFC will open about 80 new domestic company-owned restaurants.

Richard Mayer
chairman, ceo, KFC

Church's widening experiment in upscale market segment

CHURCH'S

Early results from Church's shopping mall unit have been typified as 'Not up to expectations.'

SAN ANTONIO—Church's Fried Chicken, which built its business in lower- and middle-income markets, is experimenting with a concept for the burgeoning upscale market.

Recognizing that other chains have had some success in upscale markets, Church's plans to continue its experiment beyond the one store it now has. But, a chain executive emphasizes that will not be done at the expense of existing markets.

Church's first upscale store, which has more seats and more modern decor than its other units, recently opened in Atlanta. The company says it's still too early to tell whether the concept will work.

Early results from Church's first shopping mall unit, however, have not been overwhelming. "Not up to expectations" is how one executive puts it.

Lunch business in the mall unit, which is near Cleveland, is excellent, Church's says, but dinner is disappointing. People who shop at the mall during the day are not stopping at Church's for dinner before going home.

Church's plans to modify its mall concept for the next unit. That one will probably share a food court with other restaurants and snack bars.

Also in the test stage is Church's new char-broiled chicken concept, Charro's. Opened in a converted Church's in southern California, Charro's is doing better than the Church's did there, but there are no indications yet whether the concept will be successful outside an area heavily populated by Mexican-Americans.

Church's is also finding that broiling chicken presents problems or challenges it has not had before; for examples, cooking times are increased, more labor is required, and stricter planning or scheduling is essential.

Char-broiled chicken is limited to that one California store so far. In regular Church's units, new products rolled out during the past year have included fried okra, livers and gizzards. They are reportedly doing well. Biscuits have been introduced in a limited number of stores, and a company official says the product will be given "more thought and consideration before we go any further."

As for unit expansion, Church's has re-entered the Houston area with about 18 corporate stores, which is according to schedule. A court decision was expected in July on a suit involving Church's right to operate stores there.

CHURCH'S FRIED CHICKEN

(Fiscal Year Ended Dec. 25)

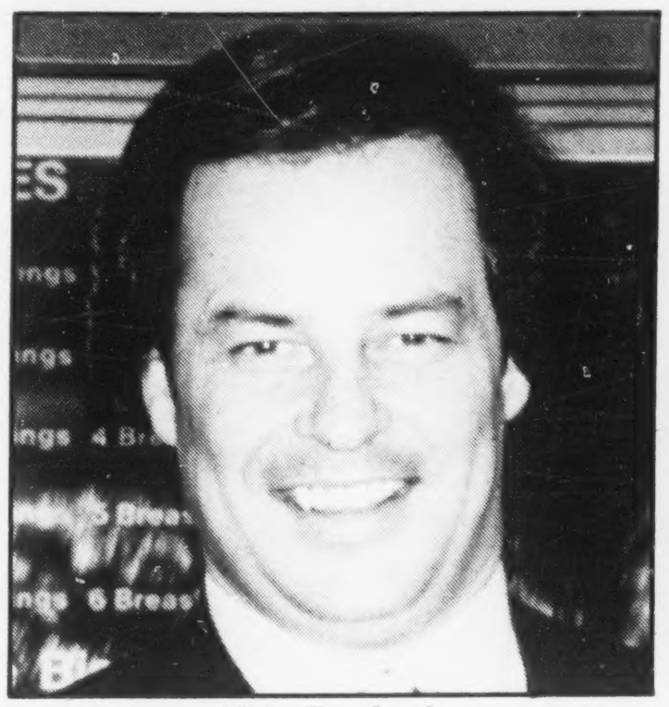
	1981	1982	1983*
Systemwide Sales (In Millions)	$420.2	$504.3	$540.0
Revenues (In Millions)	$420.2	$423.8	$450.0
Net Profit (In Millions)	$44.6	$41.6	$40.7
Average Same Store Sales	$400,014	$382,750	$395,000
Average Per Person Check		$2.85	$3.00
Number of Units	1,363	1,379	1,500
% Menu Price Increase	11.5%	4.0%	0.0%

Source: *NRN* Research

**NRN* Estimate

Roger A. Harvin
president, coo, Church's

CHAIN ANALYSIS/PART I: CHICKEN



Alvin Copeland
chairman, president, Popeye's

William Copeland
executive vice president, Popeye's

Biscuit success clears way for new menu opportunities

POPEYES

JEFFERSON, La.—A buttermilk biscuit made on-premises has become Popeyes Famous Fried Chicken's best-selling new menu item ever, boosting sales way beyond the projected 8% to 10% range and helping to convince chain executives to build a breakfast program around it.

Popeyes, the nation's third largest fast-food chicken chain in sales and number of units, has been testing several different types of biscuits and breakfast items for several years.

A biscuit breakfast menu at six New Orleans Popeyes units has been posting weekly sales of $3,200 to $5,500 per unit and will be rolled out systemwide in coming months.

Biscuits will be available in all franchised and company-owned units by September. They are sold separately for about 39¢ and replace rolls with dinner entrees.

Incremental sales of the biscuits have been very strong, according to Terrel A. Rhoton, vice president of franchise sales. The biscuits apparently have been helping build repeat business, too. "People who visited us once a week now come in twice; people who came in twice now come three times," Rhoton says.

Biscuits have also helped accelerate the rollout of Popeyes long-delayed breakfast menu. "No doubt about it, the success of the biscuit opens up breakfast opportunities," Rhoton remarks.

Popeyes breakfast menu includes biscuit sandwiches and a $1.89 platter with two eggs, sausage patty, grits, hash browns and a biscuit. A "mini-breakfast" menu is offered as a test at 12 older units which have limited or no seating; the menu consists of biscuit sandwiches with sausage or ham.

Popeyes defined the spicy chicken segment about 10 years ago even though most observers claimed that southern regional dishes such as "dirty rice" and spicy collard greens would not be accepted outside the South.

Most fast-food chicken chains now have similar menus, and Popeyes is competing with fast-growing national and regional chains such as Bojangles, Sisters, Chicken George and Mrs. Winners. Kentucky Fried Chicken, by far the segment's leader, recently developed a spicy menu of its own for use in urban markets with large black populations.

About a half dozen new menu items are being prepared for possible testing, according to Rhoton. Those that have the best chance of making an appearance soon are a salad bar, dessert and a couple of new side dishes.

Meanwhile, a salad bar is part of the prototype 100-S store that recently opened n Morgan City, La. The unit has 100 seats, much larger than the average Popeyes, and has a service line which displays products.

Popeyes continues to open in newer markets, such as California and the Upper Midwest.

POPEYES

(Fiscal Year Ended Oct. 25)

	1981	1982	1983*
Systemwide Sales (In Millions)	$142.2	$175.0	$230.0
Sales From Company Operations (In Millions)	$39.1	$48.0	$55.0
Pre-Tax Profit (In Millions)	$2.4	$3.6	$6.3
Average Same Store Sales	$575,000	$615,000	$715,000
Average Per Person Check	$3.70	$3.80	$3.90
Number of Units	275	309	390
% Menu Price Increase	5.0%	6.7%	4.5%

Source: *NRN* Research

*Company Estimate

Rollout: *Biscuits have boosted sales way beyond the 8% to 10% range projected.*

Biscuits and breakfast supporting no-holds-barred growth

HORN & HARDART

NEW YORK—Horn & Hardart Inc., led by its Bojangle's biscuit and spicy chicken chain, has broken into *Nation's Restaurant News'* top 100 this year as it pushes Bojangles to become a segment leader.

Armed with an all-day concept that yields 40% of sales from biscuits and 40% from breakfast, Bojangle's, a wholly owned subsidiary based in Charlotte, N.C., is taking dead aim at nonchicken fast feeders.

The chain is rolling out the Eggbo Biscuit as "a direct smack at McDonald's Egg McMuffin," says Barry Florescue, chairman and chief executive of Horn & Hardart.

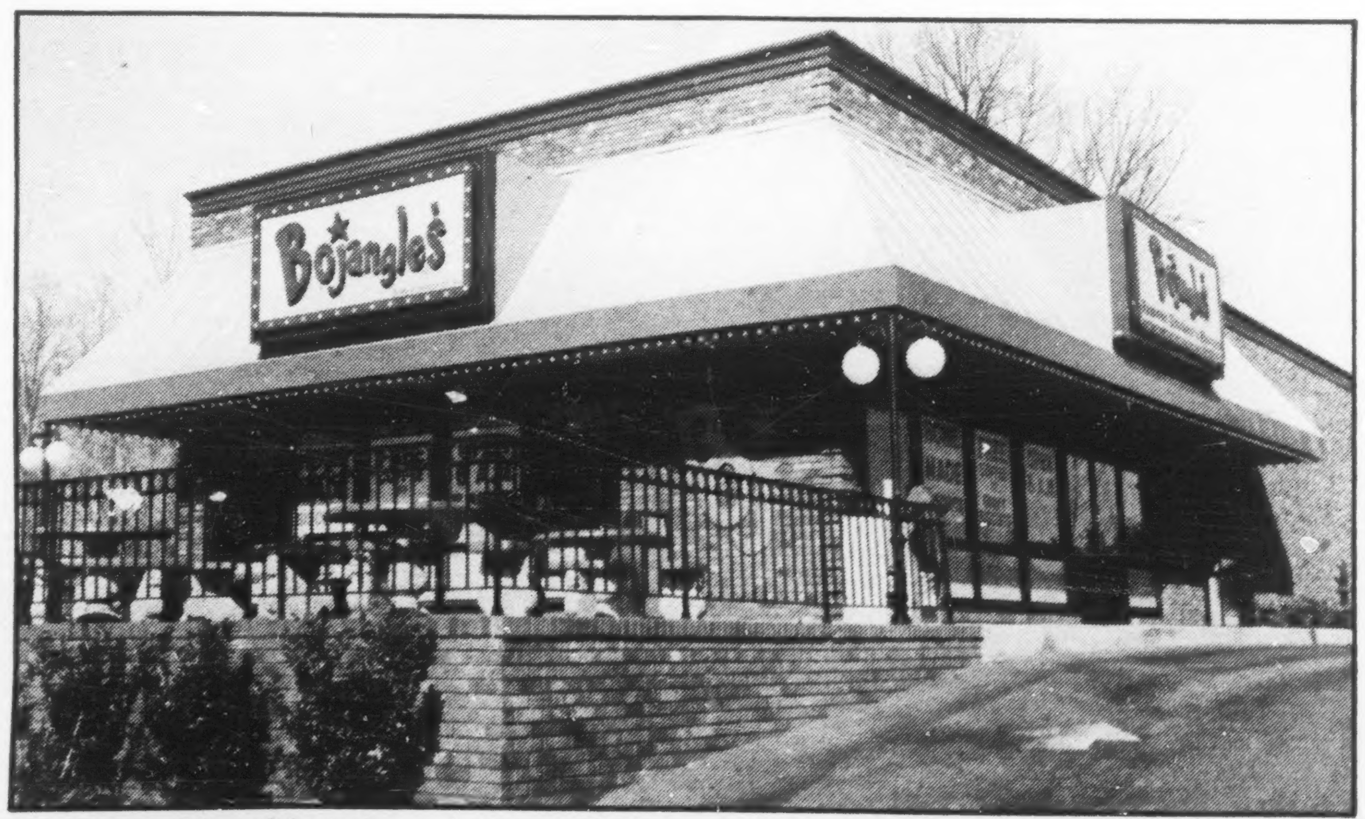
Priced at 99¢, the new breakfast item is made with scrambled eggs, cheese and Canadian bacon on a biscuit. The McMuffin is served on a muffin.

The Cajun-styled chain is pulling away from the rest of the growth-chain pack. Popeye's, the other segment contestant, for instance, was slow to adopt biscuits. Wendy's Sister's has yet to get flying. Chicken George, despite its big volumes, has yet to carve the territory Bojangle's has.

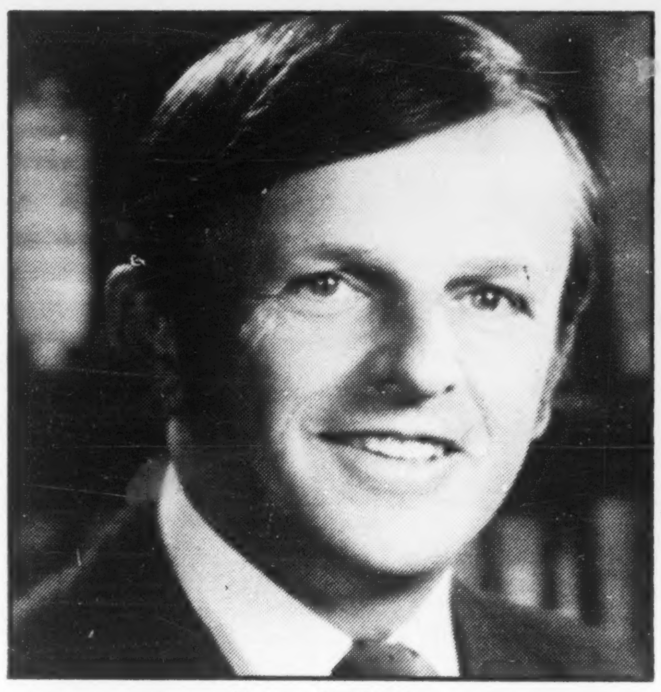
With its marketing strategy in biscuits and breakfast, Bojangle's growth strategy is marked by no-holds-barred expansion.

About 120 new stores are expected this year, on top of the 120 units that Bojangle's finished fiscal 1982 with in December. Unit volumes are an astounding $1.05 million in year-old stores.

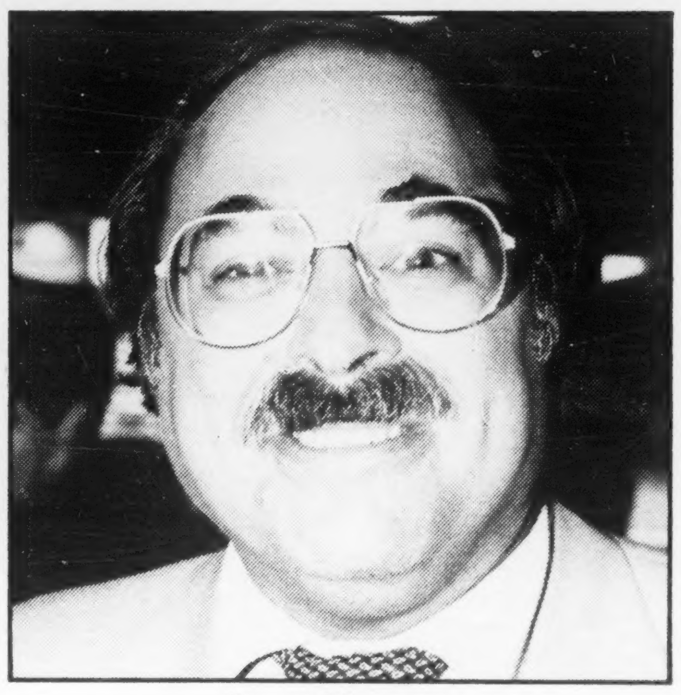
Horn & Hardart bought the chain from founder Jack Fulk in 1981 for about $12 million when there were fewer than 50 units. Since then growth, financed largely by debt and equity offerings, has shown no signs of slowing.



Biscuits and breakfast: *A marketing strategy geared to no-holds-barred expansion.*



John Gerlach
president, Horn & Hardart



Barry Florescue
chairman, Horn & Hardart

HORN & HARDART

(Fiscal Year Ended December)

	1981	1982	1983*
Systemwide Sales (In Millions)			
Total	$75.0	$139.0	$234.0
Bojangles	$25.0	$85.0	$175.0
Other	$50.0	$54.0	$59.0
Corporate Data			
Revenue	$166.1	$235.4	
Operating Profit	$9.0	$12.6	
Net Profit	$5.2	$6.6	
Food-service Segment			
Revenue	$50.4	$94.1	
Operating Profit	$9.7	$9.8	
Number of Units			
Total	105	170	300
Bojangles	50	120	240
Other	55	50	60
Average Same Stores Sales** (In Millions)	$0.9	$1.1	$1.2
Average Per Person Check**	$2.85	$2.90	$2.99

Source: *NRN* Research

**NRN* Estimate

**Bojangle's only

Horn & Hardart operates *Burger King and Arby's fast-food restaurants, David's Cookies, several dinnerhouses and bars, and a video-game restaurant, all of which it includes in its food-service segment. The company makes most of its sales and profits from its mail-order retailing business. It also has interests in a Las Vegas casino-hotel.*

CHAIN ANALYSIS/PART 1: PIZZA

While pizza chains continue to pursue the lunch trade, delivery and takeout business has shown the strongest gains. Meanwhile, the pizza-and-video-game phenomenon, while still growing in units, appears to be leveling off with results disappointing.

Overall, new Pan Pizza proves big boost to lunchtime sales

PIZZA HUT

WICHITA, Kan.—Early reports on Pizza Hut's newest product, Personal Pan Pizza, have mostly been "outstanding," according to company executives and franchisees, and observers feel in the long run it will be a success.

Arthur Gunther, president of Pizza Hut, says the item has helped double lunch period sales to 30% of average unit sales and "has not materially affected" dinner results.

The company spent more than $130 million on new equipment and hired 20,000 new employees for an increased payroll of $70 million to ensure the promise of a good-tasting, small pan pizza served in five minutes would be met.

This emphasis on speed and consistency has "changed our way of doing business," says Gunther. "We've had to become more of a fast-food restaurant" in addition to having regular table service, he adds.

A few franchisees, though, are saying that the pan pizza has hurt their lunchtime sales. The new product is a substitute for the lunch buffet, which some customers apparently prefer to the individual pan pizza. Gunther feels pizza buffets are expensive to maintain and are not of high quality.

Pizza Hut is committing significant advertising resources—the total ad budget was increased 25% this year to $50 million—for the promotion of the new lunchtime menu item.

"This is a tremendous opportunity for us," Gunther says, "and we don't want to let it slip."

Pizza Hut
Pizza Hut

Pan Pizza has helped *double lunch period sales to 30% of average unit sales without affecting dinner results, according to Pizza Hut president Arthur Gunther (left).*

With momentum in its favor and overall food costs either stabilizing or declining, Pizza Hut's profit picture looks good. One analyst estimated operating profits this year at $94 million.

But some industry observers and franchisees are wondering about new directions for this segment leader (a total of 4,293 stores are projected for this year) now that Donald Smith has left PepsiCo, parent of Pizza Hut, for Chart House. Smith is widely credited with having turned Pizza Hut's fortunes around after profits began to decline in the 70's.

His replacement as head of food service at Pepsico is Terrance Collins, who earned a favorable reputation as Burger Chef president before a stint as Victoria Station president and ceo.

Other industry leaders credit Gunther with Pizza Hut's turnaround, citing the autonomy of PepsiCo's divisions. Gunther himself says the recent changes are "not as dramatic or drastic as is sometimes made out."

Pizza Hut has also announced other executive changes. Replacing Jeff Jefferson (who has joined Smith at Chart House as president of Luther's) as Pizza Hut's senior vice president of operations is Bill Gagg. Gagg, who is 37, was formerly the central division vice president, a position now held by Gene Wilson, who was promoted from Allegheny regional manager.

Delivery concept: The perfect growth vehicle

DOMINO'S

ANN ARBOR, Mich.—Domino's Pizza has begun a $52 million expansion program that projects 50% increases in the total number of units each year.

The pizza-delivery chain is also initiating marketing and design moves to build public awareness.

Executives predict Domino's will operate 1,250 units by the end of this year, up from 831 at the end of 1982, making it the second-largest pizza chain in units. Pizza Hut has more than 4,000 stores.

Meanwhile, the Ann Arbor-based chain has set in motion plans to increase public awareness through greater emphasis on broadcasting and expansion into large cities.

In the area of promotions Domino's has thrust itself into the national spotlight with its high-stakes sponsorship of professional auto racing.

In addition the chain has hired an architectural firm to redesign Domino's basic look as a way to build a strong image.

Domino's major marketing strategy, as well as its image, will remain its position as the only national all-delivery chain. In the fall new space-age experimental vehicles will be rolling off assembly lines.

Emphasis on delivery has made it possible for Domino's to become a high-volume operation, which accounts for its profitability. But it is this success that may have created pressures on the company to be more aggressive in its growth.

One Domino's executive thinks other pizza chains will turn their attention toward the delivery concept after examining their own operations and finding out they are not providing all the services their customers want.

Besides remaining faithful to its delivery concept, Domino's has no plans to alter its menu. Pizza and soft drinks *are* the menu.

The chain also does not plan to jump on the lunchtime bandwagon, as have other pizza companies. Some Domino's units have tried lunches as an experiment and have reported success, but, according to one company officer, "The jury is still out on whether we would like to see it throughout the system."

Recently Domino's obtained loan commitments worth $52 million to finance growth. In 30 months the chain expects to have opened about 500 new corporate stores.

DOMINO'S PIZZA
Free Delivery

Thomas Monaghan, *Domino's president, has led the chain from obscurity to second place in the segment.*

DOMINO'S PIZZA

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Systemwide Sales (In Millions)	$154.6	$256.2	$475.0
Revenues (In Millions)	$79.0	$128.7	$212.0
Net Profit (In Millions)	$1.9	$3.1	$4.4
Average Same Store Sales			$384,800
Average Per Person Check			$7.60
Number of Units	582	831	1,250
% Menu Price Increase		−7.5%	5.0%

Source: *NRN* Research

**NRN* Estimate

CHAIN ANALYSIS/PART 1: PIZZA

Coast acquisitions could move chain into national spotlight

GODFATHER'S

OMAHA—Godfather's acquisition of its largest franchisee, Pizza Ventures, is an attempt to "control its own destiny" by shifting emphasis toward being a franchisor.

Godfather's would like its financial growth pattern to be under its own control rather than its franchisees', says executive vice president Richard Jeffries.

Godfather's, which projects 925 to 950 total units by the end of the year, has also made other moves that it hopes will establish it as a national presence. One significant move is the agreement with New York City's Riese Organization to franchise Godfather's in the city. Riese operates many restaurant concepts in choice locations in Manhattan.

The Omaha-based chain is excited about its move into Manhattan, which means that it is the first major national pizza chain to enter the market noted for very high-priced real estate and scores of local pizza restaurants. Jeffries says the move will "give us a good valid test of our product by the slice."

Another major expansion move is the franchise agreement with Sambo's under which as many as 200 of the coffee shops will be converted to pizza stores. This will establish Godfather's in the major markets of San Francisco and Los Angeles.

In its marketing Godfather's is aiming toward an older, more upscale clientele, which is a reflection of demographic trends. Ads that featured an actor as "the godfather"—a characterization some Italian-American groups found offensive—have given way to product-oriented advertising. The chain is positioning itself on the price-value relationship, emphasizing that its pizzas have a larger amount of ingredients at a lower price than its competitors.

For the lunch trade—an increasingly competitive market for pizza chains—Godfather's is sticking with its mini-pizza and salad bar, in the face of the all-out push by segment leader Pizza Hut for its personal pan pizza.

Godfather's registers 75% of sales after 5 p.m. and doesn't intend to risk those sales on a big lunch push. Reasoning that pizza is a "crave item" that people hardly ever order twice a day, Jeffries, comparing lunch with dinner, says, "I'd never want to trade a $7 sale for a $2 sale.

To help out during those tight lunch periods, Godfather's has its new conveyor ovens, which have reduced cooking time by one-half.

The chain plans to introduce some new products around January.

GODFATHER'S PIZZA

(Fiscal Year Ended Jan. 2)

	1981	1982	1983*
Systemwide Sales (In Millions)	$255.0	$312.5	$346.0
Revenues (In Millions)	$35.5	$40.2	
Net Profit (In Millions)	$5.4	$6.0	
Average Same Store Sales	$489,000	$441,000	
Number of Units	636	776	950

Source: *NRN* Research

**NRN* Estimate

Plots rebound within existing markets

Joseph Spillman
president and ceo, Pizza Inn

PIZZA INN

DALLAS—Plotting a rebound from a period of sluggish growth and unit closings, Pizza Inn plans to get back to building its system with special emphasis on existing markets. The company also wants to build market share overseas.

Although conceding there are operational difficulties in foreign markets, company president and ceo officer Joseph Spillman says he believes Pizza Inn can increase its overseas stores fivefold in the next three years to about 100 units. Twenty are now open, agreements for 20 more have been signed and negotiations for another 40 are under way.

Domestically, Pizza Inn's renewed efforts to increase its franchised units are paying off, with 50 new stores expected to open by year's end (along with 20 new company units). Existing rather than new markets are being targeted to increase penetration.

The long recession not only put Pizza Inn's expansion on hold, but it contributed to the closing of some stores. Now, with lower interest rates, expansion has begun anew.

Spillman says he is encouraged because the newer stores are showing a better return on investment than the older ones. New products are also showing a better return than the old, he adds.

Pizza Inn's most important new product this past year was its pan pizza. At the end of fiscal 1982 it accounted for 37% of total sales; now it is about 40%. Spillman says these results are topping expectations.

Most of the large pizza companies are trying to boost lunchtime sales by introducing new items. Pizza Inn is still hoping its line of sandwiches will push lunchtime sales up.

At first the company thought sandwiches would account for 10% of overall sales; they are now at 6%. Spillman says some sandwiches may be deleted and others added to the line until the right mix is found.

Some franchisees are reporting better success with the sandwiches than the corporate stores. Some are also pushing to build lunchtime counts by offering the mini-buffet of pizza and pasta. One franchisee says this item has brought back to his stores customers who had found the deluxe buffet too costly and too filling. The corporate stores have not adopted the smaller buffet, though.

Spillman says he believes continued efforts to promote the pan pizza, lunch buffet and sandwiches will increase the chain's market share a point or two.

On the corporate level one major executive change occurred in the past year: William E. Eskew has replaced Channing Arnold as vice president of advertising and marketing.

Changes have been made in store design, too, to give a contemporary look, with woods and stylish lighting. Spillman calls it "a 30% new look." Some franchisees, meanwhile, are reporting decor changes, as well as menu changes, that give their units the look and feel of dinnerhouses.

PIZZA INN

(Fiscal Year Ended Dec. 25)

	1981	1982	1983*
Systemwide Sales (In Millions)	$223.0	$229.0	$275.0
Revenues (In Millions)	$139.0	$140.0	$155.0
Net Profit (In Millions)	$1.4	$1.7	$3.5
Average Same Store Sales	$322,100	$356,800	$410,000
Number of Units	735	719	795

Source: *NRN* Research

**NRN* Estimate

Signs of growth fatigue more prevalent

PIZZA TIME

SUNNYVALE, Calif.—Pizza Time Theatre Inc., beginning to show more frequent signs of growth fatigue, has created a reserve fund for the closure of 10 pizza-and-games units. Average weekly sales for Chuck E. Cheese outlets remained flat throughout the first half, while concept revision costs forced margins into decline.

The 10 units slated for closure, mostly in Texas and Florida, will be phased out by the end of the year—the majority during the third quarter. Robot performers and other equipment will be redeployed in new units.

To work off high inventories, the company stopped making the "cyberamics" characters for its restaurants during a one-month period, due to end by the middle of this month.

The presence of competitive units, including its own, forced the company to abandon the outlets in Texas and Florida, according to PTT treasurer Jim Morgan: "Sometimes you wind up being your own best competition. You may not find out about market saturation until it happens." Morgan said the company expects revenues to "drift back" into its remaining units in markets where stores are closing.

Pizza Time had anticipated "breakeven" results for the second quarter ended June 16, following a 43% decline in first-quarter earnings vs. last year to $942,000. The drop in quarterly earnings was the company's first such downward turn. Last year PTT's net profits jumped 189% to $7.5 million, while revenues rose 174% to $99.2 million. In 1982 the number of units grew by 132% to 204.

Average weekly sales per unit dropped 20% in the first quarter this year, compared to last year, even while revenues jumped 103% to $34.9 million. As 1983 began Pizza Time's units were averaging about $1.3 million a year, of which about 74% was in food and beverage, and the rest in games.

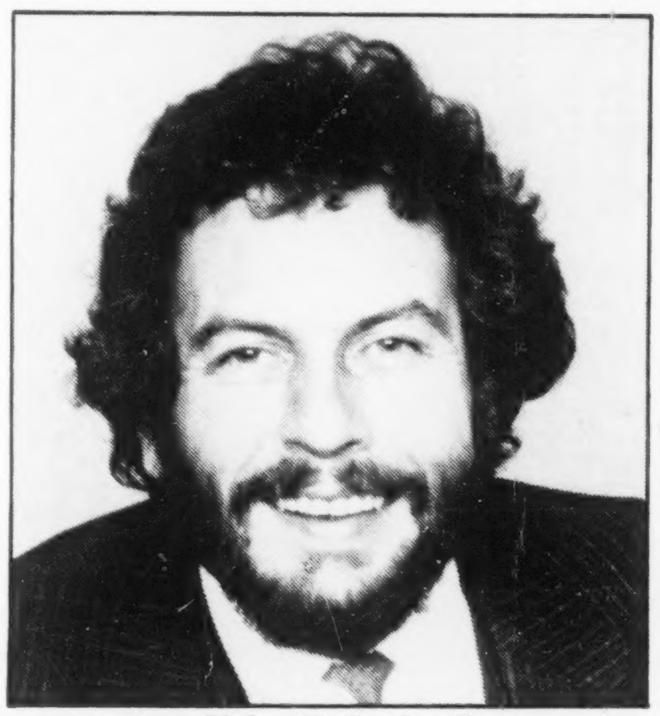
Senior vice president of operations George Hellick forecast the break-even second quarter, during which the reserve fund for discontinued operations was established, further impacting results. He also disclosed plans for improving the company's earnings performance: "Research indicates that our customers want better service and an improved food product." Hallick said PTT was increasing labor levels to improve service, and had modified its unit management structure. Field testing of a new pizza began last month. The company was also adjusting some of its menu prices in a two-market test.

"All these activities are expensive and will impact short-term earnings," he added, "but I feel confident that the results will insure future growth of the concept." Company officials also said a shift to a national advertising strategy this year from last year's regional promotions has not yet yielded the desired impact.

Skepticism of securities analysts over the viability of pizza-and-games issues has resulted in a prolonged period of volatility in PTT's stock, which has recently been trading at slightly more than half its 1982 high of $32.50. To explain Pizza Time's rollercoaster ride on Wall Street, president Joseph Keenan has said the market is "not a rational animal over the short term."

In May the company sold out a $50-million debenture offer, resulting in a $48.5-million net, being applied to retirement of bank obligations and the development of company stores.

Despite retrenching in the Southeast, Pizza Time plans to open between 50 and 60 more units by the end of the year—30 or 40 of them being company stores.



Nolan K. Bushnell
founder and chairman, Pizza Time

CHAIN ANALYSIS/PART I: DINNERHOUSES

During the next year major dinnerhouse chains hope to see resistance to high average per-person checks abate as the economy continues to improve. Wider menu mixes are also being tested by the chains to lure back lost customers.

Expanded menu spearheads drive against independents

RED LOBSTER

ORLANDO, Fla.—Red Lobster Inns of America, the nation's biggest seafood dinnerhouse chain, has added as many as a dozen new menu items at some restaurants and is now touting the difference in television spots.

The new products range from a cold salmon appetizer priced up to $2.50, through fried calamari rings on a lunch platter priced at about $4.25, to live Maine lobster in new display cases for which the price varies.

The 363-unit chain, owned by General Mills Inc. of Minneapolis, dominates chain activity in the segment. With over 80 regionalized menus, Red Lobster's most tendentious competition remains independent operators on both coasts where Red Lobster's price advantage narrows.

Red Lobster continues to grow at about 30 new units a year in the United States. But, perhaps with an eye on saturation, Red Lobster executives have tapped the Japanese market .

Red Lobster's strength continues to be its worldwide buying network which ensures both price and supply, yielding 10% food cost advantages. On the marketing side, Red Lobster has made seafood an easy decision for many who otherwise might have been reluctant to tread past beef.

Red Lobster's "for the seafood lover in you" advertising campaign has been running since 1979, and executives say there are no plans to change it.

But variations crop up from time to time. The latest wrinkle appears to signal to customers that Red Lobster has undergone changes recently.

The most significant of those changes appears on the menu. Many of the new items seem designed to bump up average checks. Dinner now seems to be edging toward the $12 mark, but Red Lobster officials say consumers still consider the chain a price leader.

Red Lobster is part of General Mills' restaurant group, which includes four other chains—York Steak House, Casa Gallardo, Darryl's and Good Earth. Joe Lee, president and chief executive of the restaurant group, was confirmed recently as chairman and president of the NRA.

RED LOBSTER

(Fiscal Year Ended May)

	1981	1982	1983	Current Fiscal Year*
Systemwide Sales (In Millions)	$505.0	$625.0	$725.0	$815.0
Average Same Store Sales (In Millions)	$1.9	$2.0	$2.1	$2.2
Number of Units	291	330	363	393

Source: *NRN* Research

**NRN* Estimate

Red Lobster

Overseas expansion: *Red Lobster executives recently have tapped the Japanese market.*

W. E. Hattaway
president, Red Lobster

Häagen-Dazs promising high return as second-growth vehicle

STEAK & ALE

By Donald Frazier

DALLAS—The acquisition of 244-unit Häagen-Dazs gives S & A Restaurants a second-growth vehicle besides its 141-unit Bennigan's Tavern division.

Funded by corporate parent Pillsbury, S & A hopes to open as many as 150 of the "gourmet" ice cream shops annually, most of 10 company-operated in contrast to the all-franchised current operations.

S & A plans 40 more Bennigan's over the next 12 months, according to newly promoted corporate chairman and chief executive officer Hal Smith.

Although some of the new restaurants will enter new markets, most of them will fill in already-established areas such as Atlanta to enhance market penetration.

Meanwhile, S & A executives assert that the 182 Steak & Ale restaurants have turned the corner after a few years of declining profitability and the closings of more than 40 units.

Häagen-Dazs has become one of the success stories of the industry in recent years, presenting the potential of a high return on Pillsbury's initial investment—estimated at more than $100 million.

It has grown 25% to 30% a year, entirely through franchising. Its hugely successful product has carved out a unique market niche for itself. Retail sales and restaurant sales reinforce one another.

Private ownership by the founder's family has somewhat inhibited the growth of Häagen-Dazs, forcing it to endure a somewhat uneven pattern of development.

But Pillsbury, realizing the importance of the dip shops to the Häagen-Dazs retail market position, has apparently committed itself to developing the chain in an orderly fashion by focusing on company stores.

The instrument of that growth, S & A, must juggle the flashy new concept with another high performance vehicle, Bennigan's Taverns.

Chris Sullivan, head of these casual theme restaurants, has undertaken several steps to ease the growth of the system in recent years. Most of these such as the establishment of regional training centers, aim to decentralize functions which do not need to be performed at the home office.

Under his leadership, Bennigan's has built more than 100 units over the last few years, achieved average unit annual sales of $2.4 million and has displaced the older, more sedate Steak & Ale division as the company's centerpiece.

But two new challenges may be looming in Bennigan's future: competition and demographics.

The other key chains of the casual theme segment—Houlihan's and T.G.I. Fridays as well as the Mexican-theme dinnerhouses—are now competing with one another head-to-head in many major markets. The segment may be approaching a bitter fight for market share, if not actual saturation.

Meanwhile, the baby-boom generation is growing up, acquiring responsibilities and different tastes. This means the original casual-theme concept—good times for singles—is increasingly passé.

Other chains in the segment are toning down their decor, turning down the music and even, in a few cases, adding a children's menu to adjust to the new demographic profile of their customer base.

But S & A, including Smith and his predecessor Norman Brinker (Chili's new ceo here) have said Bennigan's will continue to aim at the younger crowd instead.

Hal Smith
chairman, ceo, S&A

Bennigan's lower check average, they say, gives the chain an edge over the competition for these younger customers.

In any case, Bennigan's has been positioned and designed so that it can be converted cheaply and easily to another concept should the casual theme boom prove to be a short-lived fad.

S & A officials seem proudest of what they describe as a stunning turnaround at the Steak & Ale division.

The division was on the ropes only a few years ago, a victim of the same ailment which struct Cork 'N Cleaver, Victoria Station and countless independents: a sudden increase in meat prices, and resulting dramatic price hikes.

But now, according to Richard Frank, newly promoted to head Steak & Ale restaurants, the company has staunched the hemorrhage of units which reduced the chain from 225 in 1980 to 180 this year.

Many problem units are already gone. A few in unwieldy locations have been franchised to their operators. New, lighter menu items such as pasta, salads and seafood were introduced, reducing the chain's dependence on costly red meat and, at the same time, adding appeal to a broader market.

The chain has also held the line on prices in recent years: the average check, climbing toward $14 a year ago, is now only $12.50. And a new emphasis on the bottom line instead of the top line resulted in several cost-cutting programs such as a new food-costs control system, and a stringent set of energy conservation guidelines.

Mike Jenkins, who moved up to the S & A presidency after Smith's promotion, expects these steps to produce the first significant gains in real sales the chain has seen in years. Since 1980, when the average Steak & Ale unit pulled in $1.1 million, sales have nudged upward about 8% a year to around $1.4 million.

S & A has dropped a few of its experimental concepts such as the Jolly Ox and Juan & Only's, and now pins its new hopes on a so-called "gourmet" burger establishment, J. J. Muggs.

Two pilot units stand, and three or four more will be up by the end of the year, the company says. The new concept apparently involves an upgraded fast-food menu and alcoholic drinks.

J. J. Muggs seem to conform to a newly emerging segment of upscale fast-food operations which serve alcohol. Some of the companies are the Seattle-based Red Robin and Chili's and Spoons, both based in Texas.

NRN CHAIN ANALYSIS/PART 1

Top 100 Volume Chains

Sales Rank	Company (Headquarters State)	Types of Food-Service Chains	Estimated Total Food-Service Sales All Units Current Fiscal Year (Millions)	Total Sales Latest Fiscal Year (Millions)	Total Sales Previous Fiscal Year (Millions)	Number Units End of Latest Fiscal Year	Number Units End of Previous Fiscal Year	Estimated Number of New Units Current Fiscal Year	Current Estimated Average Per Unit Annual Sales (000)
1.	**McDonald's (Ill.)**	F-BU	$8,600	$7,800	$7,100	$7,259	6,739	500	$1,250
2.	**Burger King (Fla.)**	F-BU	2,700	2,500	2,360	3,400	3,255	265	900
3.	**KFC (Ky.)**	F-CH	2,500	2,400	2,270	6,479	6,428	193	410
4.	**Marriott (D.C.)† (includes all Big Boys)**	CF, CS, DI, F-BU, HO	2,400	2,000	1,500	2,214	1,965	213	600
5.	**Hardee's (N.C.) (Burger Chef)**	F-BU	1,985	1,718	1,141	2,154	2,165	150	864
6.	**Wendy's (Ohio)**	F-BU	1,750	1,600	1,400	2,430	2,229	250	730
7.	**Holiday Inns (Tenn.)**	HO, DI, CS	1,650	1,500	1,370	1,744	1,751	60	850
8.	**Pizza Hut (Kan.)**	F-PI	1,600	1,300	1,150	4,300	4,250	200	400
9.	**ARA (Pa.)******	CF, DI,	1,580	1,494	1,481	2,000	1,750	300	850
10.	**IDQ (Minn.)**	F-I, BU	1,260	1,198	1,120	4,750	4,780	15	270
11.	**Southland (Tex.) (7-Eleven)**	F-CO	1,195	1,086	983	7,165	7,002	175	146
12.	**Denny's (Calif.)**	CS, DO	1,200	1,125	1,045	2,000	1,921	100	950
13.	**Sheraton (Mass.)**	HO	1,000	940	865	1,251	1,200	45	800
14.	**Saga (Calif.)**	CF, DI, ST, PI	975	901	819	323	309	45	1,500
15.	**Canteen (Ill.)**	CF	830	791	754	920	850	55	700
16.	**Red Lobster (Fla.)**	DI-SE	815	725	625	363	330	30	2,175
17.	**Shoney's (Tenn.)**	CS, F-SE, CH, DI	800	700	572	990	728	75	1,120
18.	**Arby's (Ga.)**	F-R	700	575	527	1,218	1,146	42	555
19.	**Howard Johnson (Mass.)**	HO, CF, SC, DI	680	637	600	1,034	1,000	60	600
20.	**Taco Bell (Calif.)**	F-T	635	590	535	1,589	1,480	70	500
21.	**Jerrico (Ky.)**	F-SE, CS	605	563	507	1,247	1,125	75	480
22.	**Hyatt (Ill.)**	HO	600	550	410	70	62	2	7,500
23.	**Ponderosa (Ohio)**	FS, M	575	545	517	715	698	35	750
24.	**Servomation (Conn.)**	CF	550	533	518	1,050	1,025	27	560
25.	**Church's (Tex.)**	F-CH, BU	540	504	480	1,500	1,379	121	395
26.	**Jack-in-the-Box (Calif.)**	F-BU	538	498	455	784	795	10	735
27.	**Steak & Ale, Bennigan's (Tex.)††**	DI	520	375	295	315	45	70	1,400 2,400
28.	**Dunkin' Donuts (Mass.)**	DO	500	435	390	1,184	1,134	90	400
29.	**Collins (Calif.)***	FS, F-CH	499	451	426	630	686	68	865
30.	**Morrison (Ala.)**	CA, CF	485	421	367	486	474	18	1,650
31.	**Western Sizzlin' (Ga.)**	FS	485	450	410	635	590	650	765
32.	**Domino's (Mich.)**	F-PI	475	256	155	831	582	420	385
33.	**Chart House (La.)***	F-BU, SI, SE, DI, M	430	382	355	503	498	14	1,425
34.	**Hilton Hotels (Calif.)**	HO	430	385	350	1,500	1,420	65	500
35.	**Host Int'l (Calif.)**	CF, CS, DI	420	400	375	200	187	17	2,100
36.	**Bonanza (Tex.)**	FS	400	366	375	579	630	40	650
37.	**Interstate United (Ill.)**	CF	390	372	361	1,395	1,350	30	395
38.	**K mart (Mich.)**	ISF, F	372	345	320	2,373	2,281	90	150
39.	**Friendly (Mass.)**	CS	370	336	303	641	626	25	550
40.	**Far West (Calif.)**	DI, ST, CS	365	330	290	299	245	60	1,300
41.	**Godfather's**	F-PI	346	312	255	776	636	160	470
42.	**Woolworth**	ISF, F-BU	345**	240	220	1,400	1,450	45	185
43.	**Spartan Food (S.C.)***	F-BU, FS	337	292	243	387	341	50	819
44.	**Service Systems (N.Y.)**	CF	335	220	185	1,600	1,435	150	175
45.	**Dobbs Houses (Tenn.)**	CF, CS	325	310	302	565	550	20	600
46.	**Mr. Donut (Minn.)**	DO	325	291	230	966	925	50	340
47.	**Hilton Int'l (N.Y.)**	HO	310	304	303	89	85	5	3,000
48.	**Perkins (Tenn.)**	CS	310	283	265	360	340	18	825
49.	**IHOP (Calif.)**	CS	300	310	285	407	425	6	600
50.	**Carl Karcher's (Calif.)**	F-BU	290	240	201	358	309	42	800
51.	**Greyhound Food (Ariz.)***	CF, CS, F-BU	285	264	250	440	420	22	700
52.	**Stouffer's (Ohio)**	DI, CS, HO, CF	285	263	245	115	100	17	2,000
53.	**Sky Chefs (Tex.)**	CF	280	262	229	54	44	2	5,000
54.	**Pizza Inn (Tex.)**	F-PI	275	229	223	719	735	76	410
55.	**Baskin-Robbins (Calif.)**	F-I	265	250	238	2,625	2,621	4	125
56.	**Westin (Wash.)**	HO	265	230	200	49	46	3	5,000
57.	**Sonic (Okla.)**	F-BU	262	285	290	1,000	1,046	0	271

NRN CHAIN ANALYSIS/PART 1

Top 100 Volume Chains

Sales Rank	Company (Headquarters State)	Types of Food-Service Chains	Estimated Total Food-Service Sales All Units Current Fiscal Year (Millions)	Total Sales Latest Fiscal Year (Millions)	Total Sales Previous Fiscal Year (Millions)	Number Units End of Latest Fiscal Year	Number Units End of Previous Fiscal Year	Estimated Number of New Units Current Fiscal Year	Current Estimated Average Per Unit Annual Sales (000)
58.	**Chi Chi's (Ky.)**	DI-M	250	140	70	55	28	37	2,500
59.	**Disney (Calif.)**	A	250	180	160	135	96	15	2,100
60.	**Ogden Food (Mass.)**	CF	250	220	216	1,500	1,420	55	166
61.	**Ramada Inns (Ariz.)**	HO	250	228	205	607	675	75	550
62.	**Carvel (N.Y.)**	F-I	242	215	166	820	778	25	310
63.	**Sambo's (Calif.)**	CS	240	265	420	400	622	0†††	400
64.	**Bob's Big Boy (Calif.)**	CS	235	200	170	215	195	20	1,100
65.	**Horn & Hardart (N.Y.)**	F-BU, R, CH, HO, DI	234	139	75	170	105	130	1,050***
66.	**Popeye's (La.)**	F-CH	230	175	142	309	275	81	715
67.	**Macke (Md.)**	CF	225	214	201	1,645	1,600	40	145
68.	**Krystal (Tenn.)**	F-BU	220	196	160	390	351	35	800
69.	**Pizza Time (Calif.)**	F-PI	215	150	55	320	245	70	850
70.	**Shakey's (Tex.)**	F-PI	210	200	190	450	448	10	458
71.	**White Castle**	F-BU	209	193	172	170	162	11	1,200
72.	**Custom Mgt. (Pa.)**	CF	200	176	150	420	375	45	410
73.	**Duff's (Ohio)**	CA	200	165	121	137	121	23	1,300
74.	**El Torito (Calif.)**	M-DI	200	175	140	106	90	15	1,900
75.	**Seiler (Mass.)**	CF	200	180	170	665	630	30	265
76.	**United Airlines (Ill.)**	AIR	190	172	174	24	24	1	8,000
77.	**Furr's (Tex.)**	CA	186	159	132	98	83	20	1,720
78.	**Mr. Steak (Colo.)**	FS	185	170	163	258	250	6	640
79.	**Frisch's (Ohio)**	CS, DI	183	172	164	240	234	7	735
80.	**York (Ohio)**	FS	179	162	145	149	139	7	1,100
81.	**TGI Friday's (Tex.)**	DI	175	140	125	85	80	65	2,300
82.	**Brock (Tex.)**	PI, HO	172	164	160	199	202	0	800
83.	**Sportservice (N.Y.)**	CF	170	159	145	625	540	65	200
84.	**Stuckey's (Ga.)**	F, CA	170	165	158	280	272	10	500
85.	**Marie Callender (Calif.)**	CS, DI	165	145	130	103	98	6	1,600
86.	**Village Inn-Vicorp (Colo.)**	CS, DI	170	140	117	188	170	12	786
87.	**Wyatt (Tex.)**	CA	165	150	140	123	115	6	1,525
88.	**A&W (Mich.)**	F-BU	160	185	215	800	1,000	15	270
89.	**Waffle Houses (Ga.)**	CS	157	143	131	458	429	22	319
90.	**Golden Corral (N.C.)**	FS	155	135	108	226	184	49	710
91.	**Luby's (Tex.)**	CA	154	139	119	64	59	6	2,400
92.	**Piccadilly (La.)**	CA	153	143	127	81	79	4	1,700
93.	**Western Steer (N.C.)**	FS	152	145	136	175	169	10	870
94.	**Szabo (Ill.)**	CF	151	144	133	485	470	12	350
95.	**Gilbert/Robinson (Mo.)**	DI	150	135	112	86	76	9	1,900
96.	**Rax (Ohio)**	F-R	145	118	96	205	196	30	700
97.	**Whataburger (Tex.)**	F-BU	145	130	117	320	300	22	490
98.	**Sirloin Stockade (Okla.)**	FS	136	130	115	205	200	7	575
99.	**Country Kitchen (Minn.)**	CS	135	152	160	250	280	0	500
100.	**Victoria Station (Calif.)**	DI	130	160	170	95	100	0	1,250
	Industry Totals		**$56.1 Billion +11.1%**	**$50.4 Billion +11.5%**	**$45.2 Billion +11.7%**	**95,280 +4.5%**	**91,155 +3.8%**	**6,235 +6.8%**	

Source: *Nations Restaurant News* Research

KEY TO THIRD COLUMN

AIR	Airline Feeder
A	Amusement Feeder
BU	Burgers
CA	Cafeterias
CF	Contract Feeders
CH	Chicken
CO	Convenience Stores
CS	Coffee Shops
DI	Dinnerhouses
DO	Doughnuts
F	Fast Food
FS	Family Steakhouses
HD	Hotdogs
HO	Hotels
I	Ice Cream
ISF	In-Store Feeders
M	Mexican
PA	Pancakes
PI	Pizza
R	Roast Beef
SE	Seafood
SM	Smorgasbord
ST	Steakhouses
T	Tacos

*Franchises which also have their own operations are included in the top 100 volume chart if they qualify. This is done to avoid duplication in the total figures since franchisees overlap with franchisors which are listed in the chart. These franchisees—Collins Foods (KFC), Chart House (BK), Greyhound (BK) and Spartan Foods (Hardee's)—have their total sales and number of units listed, but their duplicate franchise volumes and units have been factored out.

†Some $1.1 billion in annual sales of the 21 Big Boy groups are included in the totals for Marriott, which owns the master franchisor, Bob's Big Boys. Frisch's Big Boy units have been factored out of the grand totals as a duplication of the Marriott totals.

††Haagen Daz acquisition included only in projected new stores.

†††Conversions planned to Godfather's, Coco's and Baxter's.

**Includes projected Burger Kings.

***Bojangles average unit sales.

****Nonfood and nonbeverage volume has been dropped from figures.

CHAIN ANALYSIS/PART I: DINNERHOUSES

New directions anticipated as Smith maps out growth

CHART HOUSE

LAFAYETTE, La.—As recently as six months ago, the future of Chart House seemed predictable.

The company would reap cash from its giant-if-torpid Burger King division and plow it into two designated growth vehicles, Luther's Barbeque and Cisco's, a Mexican-style dinnerhouse chain.

But now, all that has changed with the surprise appointment of Don Smith as president and chief executive officer.

Nobody yet knows what that will mean to this diversified restaurant company. But they do know this from Smith's reputation as a shaker with McDonald's, Burger King and, most recently, Pepsico: He will take charge quickly, and change things dramatically.

Among his first acts will almost certainly be the move of the home office from this Mississippi River backwater to Smith's old home base, Chicago.

Chicago offers Chart House several advantages over the big town in the bayous: good transportation and access to suppliers and ad agencies.

But most important, a headquarters in Chicago will allow Smith to bring on board several of the executives he has worked with in the past who may have been reluctant to move to a rural setting like Lafayette. Bill Hyde, the president of Chart House for less than a year after Bob Luckey's jump to Sambo's, is not expected to stay with the company.

Smith's first job will be deciding what to do with the company's two low-return divisions, Cisco's and Cork N' Cleaver. The Cork limited-menu steakhouses underwent a purge two years ago when its division was dissolved and several of its units were converted to the then-new Cisco's concept.

But Cisco's has apparently failed to live up to expectations. Burdened by cast-off Cork sites, operational unevenness, and instability in key management positions, 17-unit Cisco's bodes well to become the first victim of the long-awaited shakeout in Mexican theme dinnerhouses.

At $9.50, its average check is too high to attract the blue-collar crowd—it turns to Chi-Chi's, which at $7 a person is perceived as a slightly more expensive alternative to fast food. Meanwhile, the Cisco's decor and ambience generally fall below the standards of its competitors in price, such as El Torito and Garcia's of Scottsdale.

Meanwhile, the remaining 37 Corks continue to suffer from a per person check average of $14.25. Customers who can pay this price are apparently put off by a chain restaurant setting—even an upscale one.

Smith's second job will be deciding if Chart House should keep its Burger King operation—at 374 units, the fast-food company's largest single franchise.

Some voices within Chart House had been urging the company to divest its franchise, because it was unwieldy and its performance sluggish. Cash on the nail could finance brisker development of the fast-growing Luther's Barbeque chain, they argued.

But now the Burger King group is on the upswing.

CHART HOUSE

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Systemwide Sales (In Millions)	$354.6	$382.0	$430.0
Net Profit (In Millions)	$17.7	$18.7	
Average Same Store Sales:			
Burger King	$736,000	$782,000	$805,000
Luther's (In Millions)		$1.3	$1.5
Chart House (In Millions)	$1.2	$1.3	$1.4
Cork 'N Cleaver	$880,000	$750,000	$740,000
Cisco's	$1.0M	$950,000	$950,000
Average Per Person Check:			
Burger King		$2.90	$2.90
Luther's		$4.00	$4.15
Chart House		$17.50	$18.00
Cork 'N Cleaver		$14.25	$14.50
Cisco's		$9.50	$9.50
Number of Units	498	503	518
Burger King	370	370	373
Luther's	9	18	33
Chart House	48	52	55
Cork 'N Cleaver	59	42	40
Cisco's	12	21	17

Source: *NRN* Research

**NRN* Estimate

Several stock analysts say the Battle of the Burgers ad campaign benefitted Chart House massively, boosting its average unit sales to just under $800,000—and putting an end to loose talk about selling the stores.

Even so, expanding the burger operation would be difficult. Despite the appeals of some store-hungry sublicensees in northern Illinois, Chart House apparently believes its stronghold is saturated and prefers to concentrate on its Sunbelt markets.

Meanwhile, the only problem with the 25-unit Luther's Barbeque division seems to be finding a way to manage its growth.

Departed Luther's president Mike Blackman did his job well—he secured commitments to more than 100 franchised units over the next five years, then left the company to become a franchisee himself.

With a per person check average of $3.90 and a family restaurant setting with a cafeteria-style line, Luther's may be positioned to reap customers suffering from burger fatigue.

Some suggest that barbeque, just like Mexican food, is a passing fad. But others retort that barbeque is, in fact, a traditional food throughout much of the country. Chart House, they say, did not invent barbeque in any of Luther's markets. They simply found a way to serve it in the chain restaurant format.

Can Don Smith do all this?

True, Chart House may be the most complex company he has ever managed—if not the largest.

But Smith is committed to success with Chart House—his long-term contract apparently contains a clause which hitches his earnings to the profitability of the company.

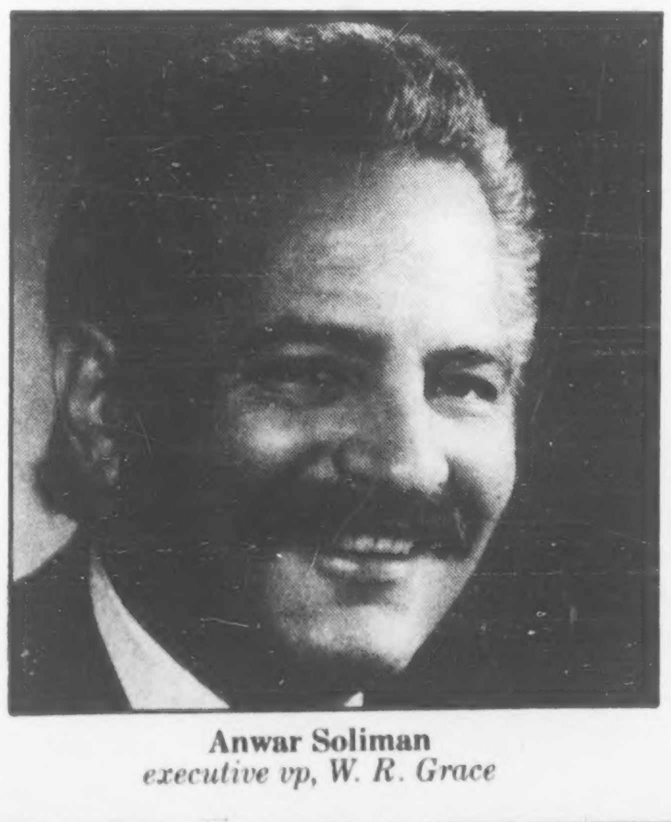
Charting an energetic course of diversification, realignment

W. R. Grace

IRVINE, Calif.—W. R. Grace's fleet of over 600 restaurants has charted an energetic course of diversification, concept realignment and market penetration, under corporate executive vp Anwar Soliman, with much of the activity occurring in the company's Far West Services/Jojos division.

Most recently the company made news with an agreement with Sambo's to convert as many as 206 of Sambo's Seasons revamps to either Coco's coffee shops or Baxter's family restaurants. Sambo's would become a Grace licensee.

While keeping its restaurants in a constant state of flux, Grace goes on extracting improved financial performances. Restaurant sales of $634 million last year (up 6% from the year before) were about 11% of the conglomerate's total revenues of $6.1 billion. Of the corporation's 1982 net earnings of $319.5 million, restaurants contributed after-tax operating profits of $8.5 million (a 340% year-to-year gain).



Anwar Soliman
executive vp, W. R. Grace

In the company's reorganized Far West division, consolidation of chain identities among its 300-odd dinnerhouses and coffee shops is the ongoing thrust.

The El Torito division continues its Mexican-segment predominance, while pushing into eastern markets with help of conversion properties acquired from Far West and outsiders.

Another division, Gilbert/Robinson, operates the successful Houlihan's chain and will continue to expand its newer Bristol Bar & Grill concept, which features fresh fish and exhibition cooking.

Grace's fast-food division at last appears to be making a contribution with its Del Taco chain under former Burger King chairman Lou Neeb. The chain is currently undergoing a refurbishment of unit exteriors, including the addition of green-striped awnings.

Divisional newcomer Mor Food 'N Fun, under president Bob Morris, has mapped out a southern California expansion course for its two concepts, Gladstone's 4 Fish and RJ's The Rib Joint.

The 312-unit Far West group is among the busiest of the Grace divisions. Dinnerhouses are under executive vice president Ralph Roberts; coffee shops are under executive vp John Weaver.

Far West is trying to unify its image to improve public awareness and the impact of its advertising. Reuben's restaurants are becoming the predominate vehicle. They are the division's original concept, developed by Far West founder John Reuben McIntosh. About two dozen of Far West's other concepts have been converted to the Reuben's name so far this year.

Far West especially if the Sambo's deal goes through will be pushing its turn-of-century Baxter's concept. About 13 of the moderately priced restaurant-bar operations have opened, mostly in California.

To retain some degree of individuality, Far West will continue operating many of its other concepts, which include such names as Moonraker, Moorings, Reuben E. Lee, Plankhouse, Sunday's and The Whaler. However, some of its weaker outlets in the East have been spun off to the El Torito division.

Last year Grace consolidated the Coco's and Jojos coffee shops into the Far West organization, resulting in "significant" overhead savings from regrouping under a single management structure. Test conversions last year of three Jojos units to the Coco's format reportedly showed immediate 20% sales gains—placing them in Coco's $1-million per-unit annual range. Consequently, Far West is converting nearly all Jojos units, most of which are in California and Texas, to Coco's in addition to using some of the units from the Sambo's agreement for this purpose.

COCO'S
FAMOUS HAMBURGERS

New conversion: *Many Sambo's restaurants may be revamped to the Coco's format.*

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CHAIN ANALYSIS/PART 1: DINNERHOUSES

CHI-CHI'S

(Fiscal Year Ended April 30)

	1981	1982	1983	Current Fiscal Year*
Systemwide Sales (In Millions)	$70.0	$140.0	$250.0	$375.0
Revenues (In Millions)	$20.0	$40.5	$90.0	$122.0
Net Profit (In Millions)*	$2.5	$4.5	$9.0	
Average Same Store Sales (In Millions)	$2.5	$2.5	$2.5	$2.5
Average Per Person Check	$7.00	$7.00	$7.00	$7.00
Number of Units	28	55	92	142
Company	12	24	44	69
Franchised	16	31	48	73
% Menu Price Increase			3.0% (In company stores only)	

Source: *NRN* Research

**NRN* Esimate

Mucho lunches & dinners. Little pesos.
Chi-Chi's
5275 Roswell Road
(1 mile inside I-285)

***Low check:** At $7, Chi-Chi's per-person check makes it an alternative to fast food.*

High volume and low prices create fast-food alternative

CHI-CHI'S

LOUISVILLE, Ky.—Chi-Chi's, the fastest-growing Mexican-style dinnerhouse chain with 50 new units planned, seems to be luring customers from the fast-food chains as well as other dinnerhouses.

Consider the numbers: The check average is $7, at least $1.50 lower than that of its competitors in the Mexican arena. The average unit serves more than 10,000 covers a week—a volume consistent with a fast-food restaurant.

And the relatively low percentage of liquor sales—35%—reflects a marketing strategy which aims for the family clientele to be found at the neighborhood your-kind-of-place instead of the ferns-and-quiche crowd targeted by some other dinnerhouse chains.

This is no mistake. To hear Shelley Frank, president and chief executive officer of Chi-Chi's, tell it: "We've tried to position ourselves between the full-service restaurant and fast food.

"With our check average as low as it is, we're just a little bit more expensive than the fast-food place down the street. Our customers are not the people who are choosing among several high-priced dinnerhouses. They are the people who are planning to go to a fast-food establishment. All we have to do is give them a little nudge."

Frank—and several stock analysts—also attribute the success of Chi-Chi's to what one observer called "an almost fanatic devotion to the operational nuts and bolts."

Chi-Chi's aims to become the dominant Mexican-style dinnerhouse chain, but it is not the only one. Benefiting from low food costs, high liquor percentages, rapid table turnover and, especially, the novelty of the Mexican concept, several companies have peppered the landscape with their own entries.

This has prompted many observers to predict a shakeout as soon as people get tired of the restaurants—which tend to be nearly indistinguishable from one another.

But Frank rejects their logic. "I see Mexican food continuing for several years," he says, comparing the segment to the pizza market—also described as saturated at a comparable stage in its development.

"Just like pizza was," he says, "the demand for Mexican food is greater than its supply."

But market differentiation may loom as the biggest problem in Chi-Chi's future. How do you make sure people know the difference between you and El Torito, Casa Lupita, Casa Gallardo, Cisco's, Annie's Santa Fe and Acapulco y Los Arcos when they're all cheek-by-jowl on the same strip?

Frank is slow to answer that one for fear of tipping his hand at a time when his competitors all strive to upgrade their operations and cash in on sky-high bar sales—one GuadalaHARRY's does 55% at the bar. But he asserts that Chi-Chi's will maintain its low prices and "family" atmosphere.

"We don't want to become known as the neighborhood watering hole."

The Chi-Chi's concept has started to reach out of its Midwestern stronghold into parts of the country which are more-or-less familiar with Mexican food, such as New Mexico and Texas.

But Frank says the Chi-Chi's product, which everyone agrees is somewhat bland—*very* bland compared to the Mexican food indigenous to the Southwest—will not perk up as it moves south.

"This country has become so mobile, so transplanted," he says, "our customers in these locations are not necessarily from that area. Our customer is not the one who's been going to the local places. Ours is the one who hasn't been going."

Intending to reap the economies of scale, Frank has plotted a long-anticipated move into Chicago—the plum of the Mexican dinnerhouse trade. Four units have opened there, while two are under construction. Frank says the market can absorb two more Chi-Chi's as well.

But he insists that Chi-Chi's and its powerful franchisees such as Kelly-Johnston and the Consul Corp. will never share markets

FAST SEAFOOD

Fast seafood chains, rather than compete among each other, have begun to position themselves against bigger game.

Shifting gears at the market crossroads

JERRICO

By Donald Frazier

LEXINGTON, Ky.—Rejoicing in its first-quarterly sales increase in more than a year, Jerrico and its Long John Silver's chain stand at a crossroads.

Should the chain further consolidate its domination of the large-but-limited fast-seafood market?

Or should it go after bigger game by entering the fight for market share now heating up between the burger chains?

For the last several years, Long John Silver has regarded itself as primarily a seafood chain. As a result, it has positioned itself opposite other fast-seafood chains such as Arthur Treacher's and Captain D's, and has tried to broaden its seafood menu.

But LJS has apparently shifted gears recently.

In menu mix, marketing strategy and pricing, it has sought to depict itself as an alternative to the mainstream fast-food operations—specifically, Burger King and McDonald's.

"This is something that's occurred to a lot of us for the last several years," one Jerrico marketing staffer said. "We all wondered why we should talk about LJS in a vacuum or as a fish restaurant instead of treating the chain like what it is: fast food."

In other words, the fast-seafood segment—a $1.3 billion share of the dining-out market—may not exist, apart from the market for all kinds of fast food.

Jerrico has apparently gotten the message. Its new set of television advertisements abandons the usual soft-sell on the various virtues of Long John Silver stores. Instead, it makes a hard pitch for the customer who is tired of the regimented service and "ho-hum food" of many of the larger burger chains.

Long John Silver's
NOW OPEN

***At a crossroads:** With sales improving, will Jerrico go after a piece of the burger chain's market?*

The results aren't in yet, but the third quarter seems to indicate a turnaround: average sales of comparable units edged upward 1% to $108,000, while net profit rose more than 10% to $4.47 million.

Hard on the heels of a dismal calendar 1982, this comes as a blessing to a Jerrico team which slowed down expansion in several markets over the year due to the weak economy.

Transcending seafood over the next year makes sense for Long John Silver, for a variety of reasons.

First—price. Seafood prices have been roughly stable for several months, and should keep on an even keel for about the next eight months. As beef prices continue their gradual-but-inexorable rise, the price advantage the burger chains had enjoyed over Long John Silver's over the last several years will diminish. For price-conscious customers, the choice will grow more difficult.

Second—customer resistance to thinking of fast-seafood operations as dinnerhouses. Many chains have toyed with the idea of upscaling themselves into the lower end of the seafood dinnerhouse market. They wanted to become the Ponderosas of fish.

Jerrico, in the forefront of this movement, rolled out an ambitious test of broiled fish, a product which has everything to do with a dinnerhouse setting but nothing to do with fast food.

But the test has apparently stalled in 30 units while the company reevaluates its performance—and its operational feasibility.

Company officers are sanguine about the next year's prospects, predicting that the slight economic upturn will almost certainly help Jerrico because the company was among the last hit by the recession.

CHAIN ANALYSIS/PART 1: FAMILY RESTAURANTS

With the economy still favoring the lower check averages offered by fast feeders, family restaurants and coffee shops have taken a number of steps to woo patrons. Low-ticket breakfast specials, regional menus and daily dinner specials top the list.

Conversion strategy helping maintain market share gains

DENNY'S

By Richard Martin

LA MIRADA, Calif.—While real growth in customer traffic has slowed to about 2% in the past year, Denny's Inc. claims a continuing gain in market share in the full-menu coffee shop segment through acquisition and conversion of competitors' units. Meanwhile, Denny's is using its Winchell's doughnut shop division as a launching pad for new concepts.

In the past 18 months Denny's has increased its operating restaurant fleet by more than 100 units picked up variously from Sambo's, VIP's and Alphy's. The company now has more than 930 North American units, including about 35 franchisees, plus nearly 200 foreign outlets, mostly in Japan.

With ROI for chain expansion maximized by its acquisition/conversion strategy, the company may add another 100 or so units in fiscal 1984, with only about 40 outlets coming on line from new construction.

Expectations that Denny's would acquire a substantial number of units from floundering Sambo's is now doubtful, however, in light of the franchising arrangement Sambo's has completed with Godfather's Pizza.

Denny's president Vern Curtis has promised the company will continue to boost average annual store sales (now about $950,000) from menu diversification and marketing know-how, concentrating on items that are not available in other coffee shops, or that are not readily or easily prepared by customers at home.

The company has enjoyed one of the highest gains in operating profits of any large restaurant company during its latest fiscal year (about 19%).

DENNY'S

(Fiscal Year Ended June 26)

	1981	1982	1983*	Current Fiscal Year*
Systemwide Sales (In Millions)	$956.0	$1,045.5	$1,125.0	$1,200.0
Revenues (In Millions)	$849.0	$955.7	$1,060.0	$1,195.0
Net Profit (In Millions)	$26.9	$36.8	$40.0	$45.0
Average Same Store Sales				
Denny's	$831,000	$850,000	$950,000	$1.1M
Winchell's	$168,000	$184,000	$200,000	$225,000
Average Per Person Check			$3.07	
Number of Units	1,879	1,921	1,995	2,100

Source: *NRN* Research

**NRN* Estimate

***For the third quarter** of 1983 ended March 25, Denny's reported a 13% gain in net profit to **$8.08** million, compared to the same period last year. Sales for the quarter increased 12% to **$258.7** million.*

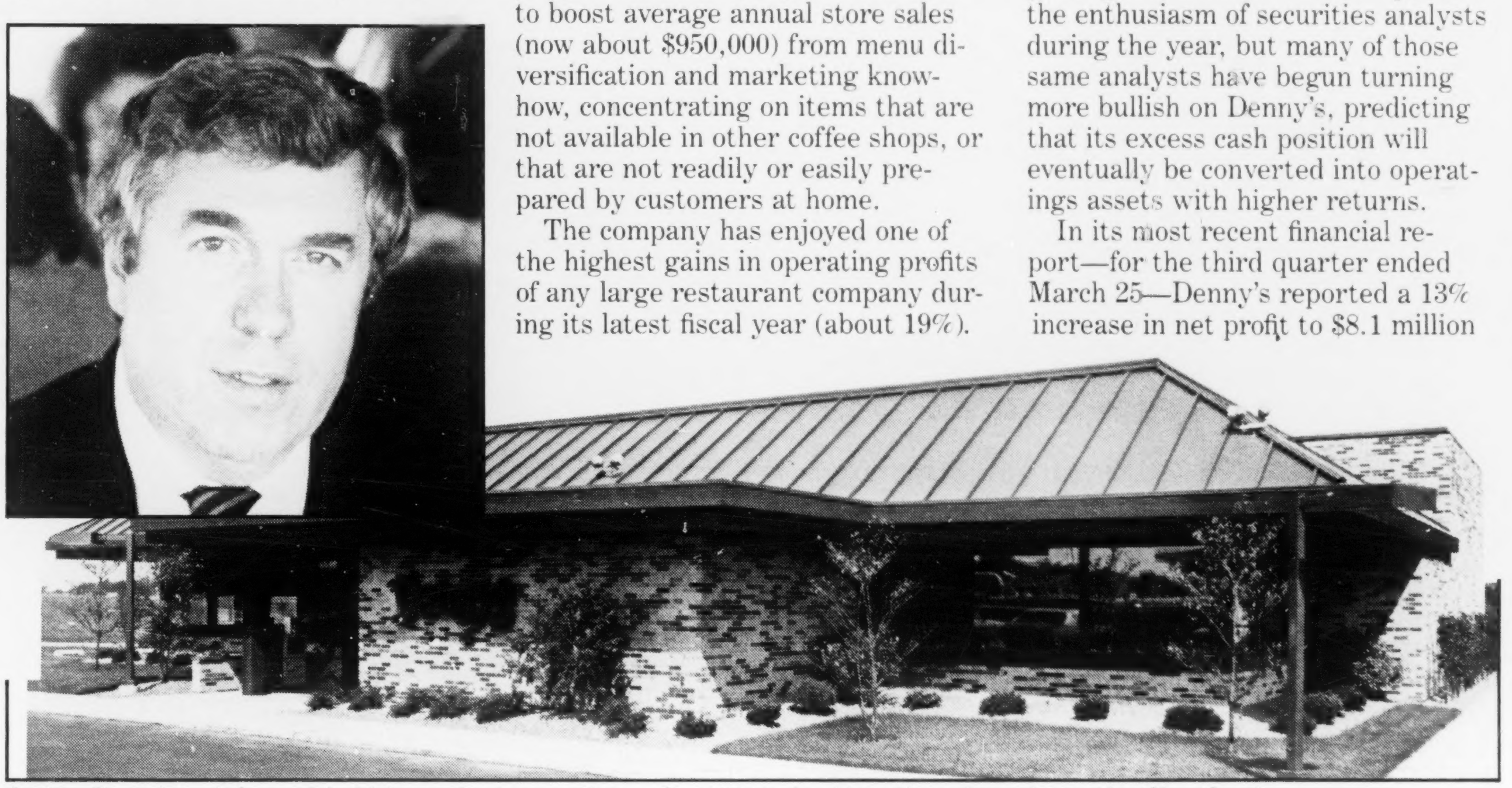
But this gain was largely offset by a sharp drop in interest income from its short-term investments of more than $100 million. The resulting net profit gains of about 10% tempered the enthusiasm of securities analysts during the year, but many of those same analysts have begun turning more bullish on Denny's, predicting that its excess cash position will eventually be converted into operatings assets with higher returns.

In its most recent financial report—for the third quarter ended March 25—Denny's reported a 13% increase in net profit to $8.1 million vs. the same period last year. Revenue was up 12% to $258.7 million. Operating income in the third quarter was up 28%, which again was mitigated by declining investment income as interest rates slipped. Nine-month net profit and revenues were each up 11%, to $29.2 million and $781.8 million, respectively.

Winchell's unit sales have lagged slightly behind inflation in the past year, but menu price boosts raised average store sales to about $200,000 in the 855-unit chain. Curtis has said that doughnut houses will be expanded in stronger markets, following limited expansion in 1983.

Experiments designed to increase all-day appeal for the doughnut houses got off the ground with a so far "encouraging" 45-unit test in California of a five-item line of deli sandwiches.

The Winchell's division has also become the proving ground for a new fast-food barbecue concept, Uncle Jeb's, which should open its second prototype unit this year in a non-Winchell's location. The new Uncle Jeb's unit will add drive-thru capabilities.



***On top:** Denny's posted one of the highest gains in operating profits (19%) in fiscal '83. Above: Denny's president Vern Curtis.*

Breakfast buffet's success spurs more menu innovations

SHONEY'S

NASHVILLE—Shoney's Inc., buoyed by a 96-quarter streak of profit gains and a successful recent stock offering, has decided to place its greatest marketing emphasis on research and development of new products.

With the breakfast buffet proving to be a success in its Shoney's family restaurants, the Nashville-based company is experimenting with other menu concepts, like a late-night buffet and beef and seafood items not offered before in its stores.

Shoney's has targeted $40 million for capital investment this year. Some of that will be financed by the recent $18.5 million public stock offering.

About one-fourth of that capital investment—or $10 million—is earmarked for Shoney's newest restaurant chain, Lee's Famous Recipe Fried Chicken. Shoney's maintains the return on the lower-investment Lee's units is high, with pretax margins about 10½%-11%.

It was expected that Shoney's would put the lion's share of its capital investment into the chicken chain, which it has been operating fully for less than a year, but the biggest share of the program—$17 million—is still going to the more numerous Shoney's Big Boy and Towne and Country restaurants.

The chain's other major concept, Captain D's seafood restaurants, currently has the highest average store sales in the fish segment.

Chainwide expansion into new areas, however, is expected to be moderate.

Shoney's executives express no great desire to expand far outside their Southeastern-Midwestern base, and foreign expansion, at least for the foreseeable future, seems to be out of the question.

These executives boast that their company has been recession-proof, and the figures for real sales gains and profit increases back up the claim.

With a recovery under way and governmental regulation waning, Shoney's is looking toward even better results. What is particularly encouraging, says one executive, is that the minimum wage has not gone up. That, plus the stability of commodity prices, gives Shoney's, as well as other restaurant companies, good cost controls for the coming year.

SHONEY'S

(Fiscal Year Ended Oct. 30)

	1981	1982	1983*
Systemwide Sales (In Millions)	$572.0	$700.0	$715.0
Revenues (In Millions)	$269.0	$337.0	$400.0
Net Profit (In Millions)	$14.7	$23.2	$22.0
Average Same Store Sales (In Millions)		$1.0	$1.1**
Number of Units	728	990	1,055
% Menu Price Increase			3.5%

Source: *NRN* Research

**NRN* Estimate

**For Shoney's units only

***New menu items:** With the success of its salad bar and breakfast buffet, Shoney's will be placing increased emphasis on menu development. Above: Shoney's chairman Ray Danner.*

CHAIN ANALYSIS/PART 1: FAMILY RESTAURANTS

Slack earnings prompt new three-pronged corporate strategy

HOWARD JOHNSON

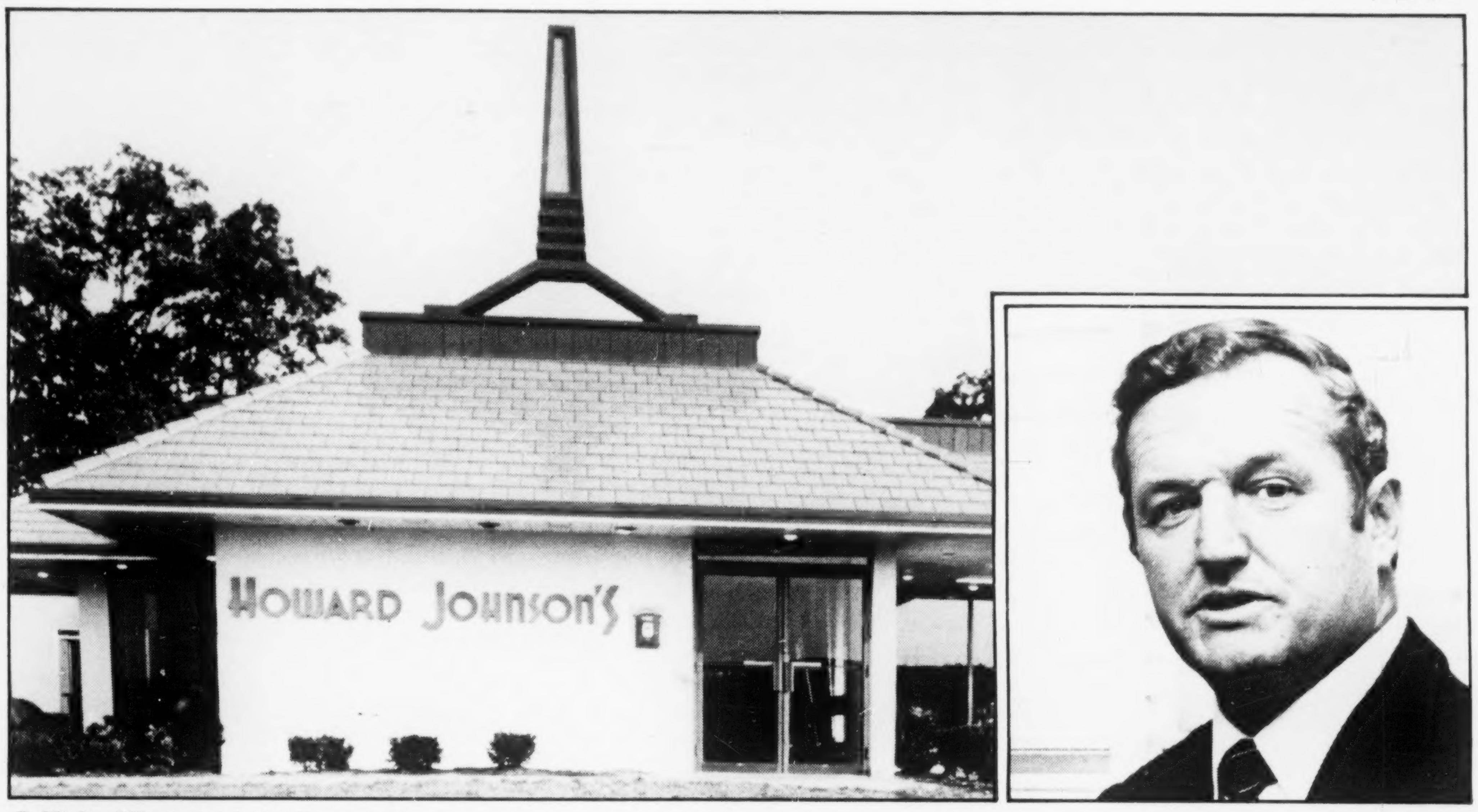
BRAINTREE, Mass.—To help combat an estimated 13% drop in earnings for fiscal 1982, Howard Johnson has devised a three-pronged corporate strategy.

First, HoJo's will become more consumer focused and marketing oriented through expanded television advertising in more markets. Second, restaurant managers will be given more authority over individual unit operations, regular menu items and localized daily specials. Finally, Hojo's key executives, including chairman and president G. Michael Hostage, wil travel more frequently to all HoJo locations.

HoJo operates over 800 Howard Johnson restaurants, more than 520 motor lodges, 200-plus Ground Round restaurants and about three Red Coach Grills. HoJo recently reached an agreement in principle to sell 16 Red Coach Grills to Exeter Equities Inc., a privately held, Boston-based diversified real estate company.

To develop Ground Round into a high volume, high profit operation, Hostage and company must attract experienced unit managers, something HoJo has thus far failed to do. Many of the Ground Round problems can be traced to unqualified managers and their assistant managers. Actual chain average unit sales last year were approximately $900,000.

"With over 200 Ground Round restaurants and an aggressive expansion program, we have an ongoing need for capable managers," said Thomas J. Russo, HoJo executive vice president. "Developing management talent internally through training programs has been an important element in our growth."



G. Michael Hostage (right), Howard Johnson's chairman and president, has instituted a new three-pronged strategy in an effort to breathe new life into the chain's sagging operations. HoJo currently operates 800 Howard Johnson restaurants, more than 520 motor lodges, 200-plus Ground Round restaurants and about three Red Coach Grills.

HoJo is in the process of rolling out 25 to 30 new Ground Rounds and renovating 20 others. Ground Round has potential annual unit volumes of $1.25 million to $1.5 million in many locations.

The 800 Howard Johnson restaurants average between $575,000 and $600,000 in annual sales, according to company officials. Many Howard Johnson restaurants are reportedly unprofitable and many of the worst performers have been closed to create higher return opportunities for the company.

HoJo recently agreed to be the exclusive Burger King franchisee in HoJo's nine-state toll-road area and for any other toll-road contracts obtained. HoJo has 87 service plaza turnpike restaurants among its 800 Howard Johnson restaurants.

"The first Burger King site will be built on a Pennsylvania toll-road in 1983," said spokesman Nancy Fisher. "This will provide us with the opportunity to give travellers two products—Burger King's fast and Howard Johnson's sit-down meals."

HoJo is also developing new restaurant concepts, but Fisher would not specify. A plan for a new hotel chain is being considered by HoJo's British parent, the Imperial Group Ltd., an $8 billion-plus tobacco and food conglomerate that bought the American firm in 1980.

Promoting new ice creams; continuing unit enhancement

FRIENDLY

WILBRAHAM, Mass.—Friendly has rolled out cocoa mocha, chocolate chip fudge and chocolate mint ice cream pies and is promoting them with a $6 million advertising campaign.

The Hershey-owned family restaurant chain that specializes in ice cream and other desserts has opened eight restaurants in the Richmond, Va., area, outside Friendly's traditional markets in New England, the mid-Atlantic States and the Midwest.

The 641-unit chain is in the midst of the second phase of a unit enhancement program that includes additional changes in interior decor, a new service system and additional booth seating.

Friendly has also standardized prices and menus at most of its ice cream and sandwich shops and family restaurants.

Sales rose 5.5% in real terms—after adjustments for menu price hikes—in 1981. Net profit increased 17% to $34.3 million on an 11% rise in sales to $335.8 million in 1982 compared with the previous year. The rise in sales was attributed to the opening of 24 new restaurants, new product rollouts, heavy advertising, and menu price increases.

Friendly is testing other ice cream products and has several seasonal menu additions—a melon-flavored sherbet roll in the summer and apple and pumpkin pies at Thanksgiving.

FRIENDLY

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Systemwide Sales (In Millions)	$302.9	$335.8	$370.0
Net Profit (In Millions)	$29.3	$34.3	$39.0
Average Same Store Sales	$455,000	$500,000	$550,000
Number of Units	626	641	666
% Menu Price Increase*	10.0%	5.5%	

Source: *NRN* Research

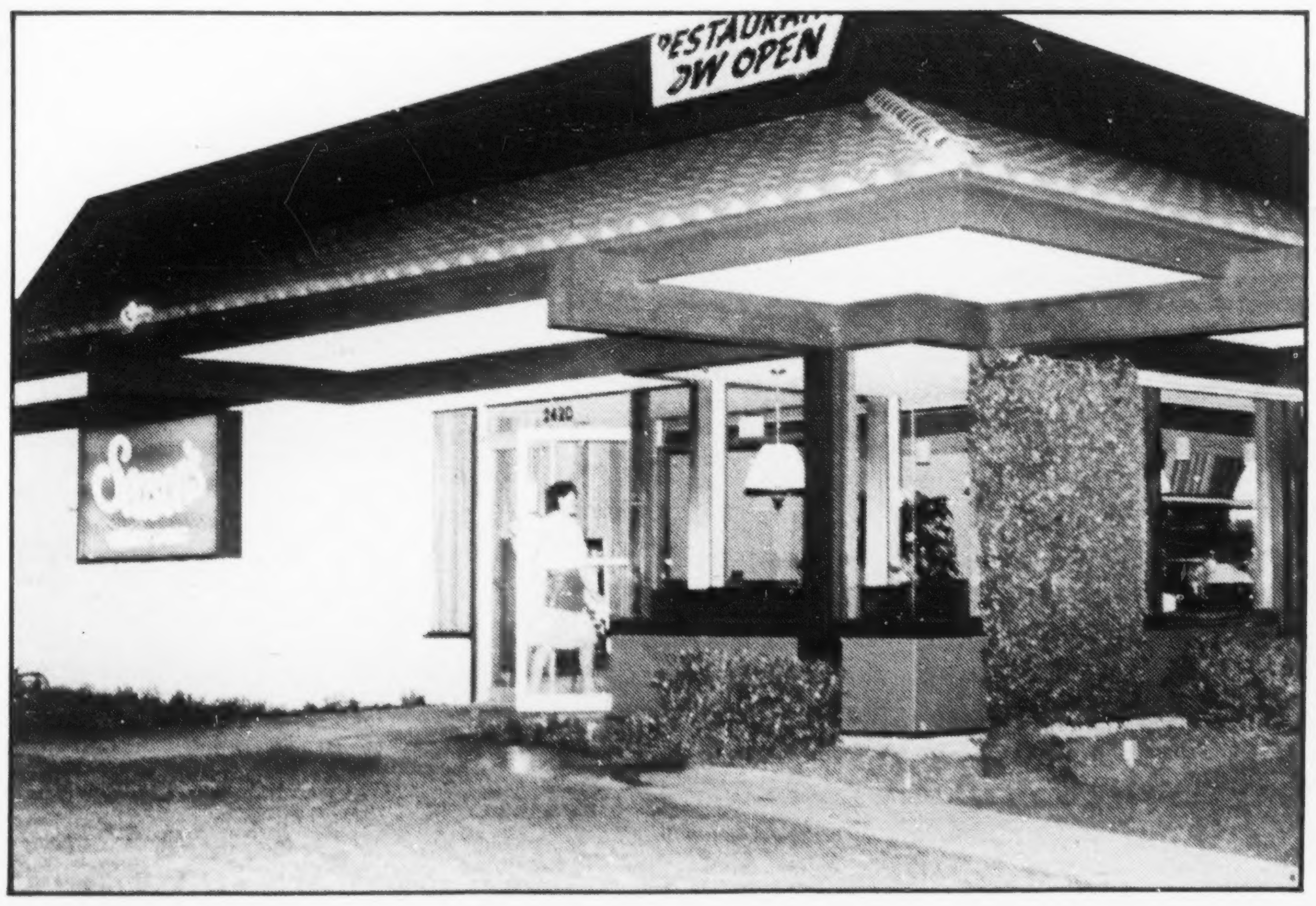
**NRN* Estimate

Season's failure sets the stage for last-ditch survival effort

SAMBO'S

CARPINTERIA, Calif.—In 1983 real estate became the last-ditch refuge of Sambo's Restaurant's Inc., as the company sought to survive the ravages of Chapter XI by selling off many of its coffee shop properties, and by becoming either a franchisee or licensee of other food-service companies.

The abrupt failure of its ill-fated Season's conversion, made possible by court approval last November for $30 million in new debt, set the stage for a revised survival gameplan. In April Sambo's sought court permission to sell 250 of its remaining 618 units. In May the company struck a franchise deal with Godfather's Pizza for funding to convert 112 Season's outlets to the Godfather's concept.



***In May, Sambo's struck a franchise deal** with Godfather's Pizza to convert 112 of its failed Season's outlets to Godfather's Pizza restaurants.*

W. R. Grace entered the picture last month with a tentative deal to finance the conversion of up to 206 Sambo's units into Coco's and Baxter's restaurants, a move which would make the company Grace's first domestic licensee. If the Grace transaction gets court approval Sambo's would be left with about 300 units, including the 250 it had earlier applied to sell.

Seemingly one of the industry's major forces at one time with 1,120 units in 47 states. Sambo's $100-million-plus debt load and mounting operational losses forced it to seek protection from creditors under Chapter XI of the Federal Bankruptcy Code in November 1981. From that date until April 28, 1983, the company has recorded net losses of $114 million on revenues of $404 million. Last year alone, Sambo's lost $75.8 million.

CHAIN ANALYSIS/PART 1: FAMILY RESTAURANTS

Ice cream cookie, breakfast biscuit augment expanding menu

DUNKIN' DONUTS

New horizons: Once limited to the East Coast, Dunkin' Donuts is currently extending its reach westward.

RANDOLPH, Mass.—Slowly but surely, Dunkin' Donuts will expand its product line over the next year with an ice cream cookie sandwich in the north and a breakfast biscuit in the south.

The ice cream sandwich, meant to take advantage of fresh cookies from Dunkin' Donuts' on-premise bakeries, will probably hike volumes for the summer months, when sales are usually slack for the 1,184-unit chain.

The biscuits, served with sausage, cheese and other fillings, are intended to strengthen Dunkin's showing at breakfast by adding more sit-down business to the already-brisk, take-out trade.

They, too, will be prepared in the on-premise bakeries which became part of Dunkin' Donuts regular store format a few years ago with the introduction of a full line of bakery products.

After a year's test, each item will extend to the other side of the country; the company expects to fill in the rest of the system within a few years.

Robert Rosenberg, president and chief executive officer, claims that these new products—plus a continuation of the successful advertising campaign first aired a year ago—should combine to increase the company's sales 15% to $500 million during the next year.

But other observers attribute the last few years of growth in both sales and profits to other, more mundane factors: careful selection of markets and good relations with franchisees.

Once limited to New England and the mid-Atlantic States where it is still heavily concentrated, Dunkin' could have expanded by filling in other regions in the Eastern United States where it is already established.

Instead, it is reaching West. One relatively new market, Phoenix, will have more than 40 stores by 1988 if plans go smoothly. More than 15 new units are planned for Chicago's 75 units over the next two years.

Relations with franchisees, still sullied by several longstanding lawsuits, have improved markedly for Dunkin' Donuts.

The aggressive pace of new product development at corporate headquarters in this Boston suburb contributes to the placidity of relations. But most of the credit seems to belong to the company's new marketing posture.

Once content to advertise with newspaper ads placed by local cooperatives and an occasional lackluster commercial aired on late night television, Dunkin' has shifted to a national television ad campaign anchored by a set of clever ads.

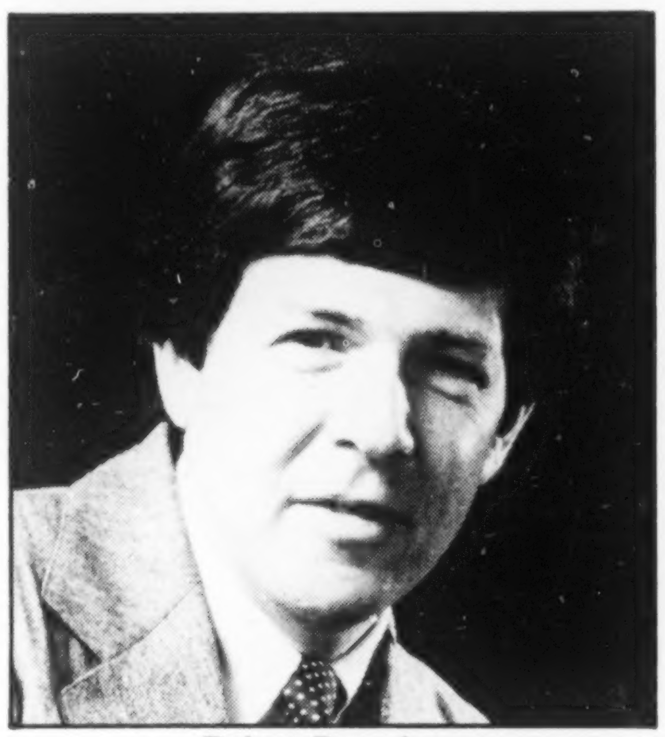
These humorous vignettes stress the freshness of Dunkin' Donuts. Their strategy represents a direct attack on the chain's fast-growing competitor: supermarkets with in-store bakeries which finish off pre-prepared items but bill them as "fresh-baked."

Although only 35% of Dunkin's customers take out donuts and other baked goods, they account for more than 65% of sales.

A new warehouse in New England proves relations with franchisees have improved. The owners of more than 200 shops in the area contributed $2,500 per unit to finance the 43,000-sq.-ft. facility in Westboro, Mass., which is entirely owned and run by franchisees with the company's advice.

The performance of the company's international division—minus its 55 units in Canada—remains a question mark for the next year.

Conceding that the 120-unit divisions have not achieved full profitability, Rosenberg asserted that the operations in the Far East and Latin America will start to show a proper return as soon as they achieve a "critical mass."



Robert Rosenberg
president, ceo, Dunkin' Donuts

DUNKIN' DONUTS

(Fiscal Year Ended Oct. 29)

	1981	1982	1983*
Systemwide Sales (In Millions)	$390.0	$435.0	$500.0
Revenues (In Millions)	$68.6	$75.7	
Net Profit (In Millions)	$5.7	$6.6	$7.6
Average Same Store Sales	$343,600	$376,200	$402,320
Number of Units	1,134	1,184	

Source: *NRN* Research

**NRN* Estimate

Public stock offering signals diversification, unit development

VILLAGE INN

DENVER—In less than a year, Vicorp Restaurants Inc. has changed from a quiet, privately held operator and franchisor of fewer than 200 Village Inn family restaurants into a bustling, diversified public company with four different restaurant concepts.

Vicorp had its initial public stock offering last fall. Since then, it has been busy boosting volumes at its family restaurants, developing two new dinnerhouse concepts, The Rose and Varieties, and acquiring Poppin Fresh restaurants and pie shops from Pillsbury.

Company executives insist they have not lost sight of their primary business—the Village Inn chain that has developed from an old pancake house format into an updated family restaurant concept. By the end of the fiscal year in October, there will be 200 Village Inn units, 12 more than a year earlier.

Village Inn restaurants are clustered in major markets in Colorado, Utah, Arizona and Nebraska. Vicorp is expected to continue opening about a dozen new units a year and may expand into Tampa and Orlando, Florida. All but 57 Village Inn restaurants are franchised.

Unlike many of its competitors, Village Inn has been posting real sales increases at company-owned units—sales after adjusting for menu-price increases—and by the end of October average unit volumes will reach about $786,000. Menu prices were raised less than 3.5% this year.

Village Inn restaurants are known in their market areas for breakfast items such as pancakes and omelets but units are open for three meal periods and offer complete coffee shop menus. Breakfast and lunch items are priced between $2.25 and $4.95 and dinner entrees from $3.95 to $6.95.

One new menu item at some Village Inn units are freshly baked pies that are made at the newly acquired Poppin Fresh units. Vicorp acquired Poppin Fresh from Pillsbury for $16 million earlier this year and has been continuing a menu diversification strategy combined with the upgrading and remodeling of some units.

Poppin Fresh restaurants sell a variety of pies to go and are mostly used by customers looking for dessert and a beverage. Pillsbury was not able to convince customers to try other menu items; Vicorp is trying to do that.

Poppin Fresh has new pita bread sandwiches, appetizers and dinner entrees such as sirloin steak and fried shrimp priced between $4 and $6. Vicorp must change the name of the chain by next February under terms of its agreement with Pillsbury.

Vicorp is also developing two new concepts, The Rose and Varieties. At the start of this year, there were four Irish pub-style casual dinnerhouses known as The Rose operating in Nebraska, Illinois and Wisconsin and there may be as many as 10 by October.

The Rose features a casual atmosphere, fresh seafood and other dinner entrees, imported beer and ale, and an ambience that is similar to Bennigan's or Houlihan's. The Rose units have about 175 seats, a $12 per-person check average and annual sales projected at about $1 to $1.25 million.

Varieties is a casual theme dinnerhouse that features four separate dining areas, a lounge with dancing, a full-dinner menu, and costumed waiters and waitresses who sometimes act out their characters: Mae West, Superman, Peter Pan and others.

Each of the four dining areas has a theme: future space, fantasy, Parisian and the Old West. The units are huge—about 12,000 sq. ft.—and cost about $2 million to open. Average annual sales are expected to be about $2 million, with a breakeven point of about $1.5 million.

Vicorp will franchise The Rose concept but will probably have only company-owned Varieties, due to the complexity of that operation.

VICORP RESTAURANTS INC.

(Fiscal Year Ended Oct. 31)

	1981	1982	1983*
Systemwide Sales (In Millions)	$117.4	$140.0	$170.0
Revenues (In Millions)	$41.7	$50.0	
Net Income (In Millions)	$1.9	$2.3	
Number of Units:			
Village Inn Pancake	170	188	200
Poppin Fresh**			59
The Rose		4	10
Varieties		2	3
Average Same Store Sales (Village Inn Only)†	$720,000	$728,000	$786,000
Average Per-Person Checks (Village Inn Only)	$3.00	$3.40	$3.50
% Menu Price Increase	2.0%	3.5%	3.0%*

Source: *NRN* Research

**NRN* Estimate

**Vicorp acquired the Poppin Fresh chain from Pillsbury for $16 million cash earlier this year.

†Figures are for the 57 company-owned Village Inn family restaurants only.

CHAIN ANALYSIS/PART I: CAFETERIAS

Traditionally associated with the South and Southeast, Cafeteria chains are bursting these geographical barriers with moves into Midwestern and Western states. Menus are expanding to keep pace with fast feeders and other competitors.

Mounting a major advertising offensive

MORRISON°

***Under president and ceo** Eugene Bishop (above), the 151-unit Morrison cafeteria chain is confronting its competitors head-on with a new advertising campaign that stresses quality and price.*

MORRISON'S
CAFETERIA
OPEN
SERVING
8 TO 8
ORRISONS

MOBILE, Ala.—With cafeterias in general suffering a long-term erosion of market share to specialty and fast-food restaurants, Morrison Inc. is developing a strategy aimed at winning back customers.

The 151-unit cafeteria chain, long its segment's leader, is mounting advertising offensives on three fronts: Against fast feeders, seafood restaurants and other cafeteria chains.

Stressing both quality and price, Morrison's has taken on fast food with a series of commercials depicting a family's decision-making process. It stresses Morrison's quality, with "somebody's in the kitchen at Morrison's," and price, noting that for a few pennies more diners can get a choice of menu items.

Against seafood restaurants in general—and by association Red Lobster in particular—Morrison's has launched "deep-sea days" chainwide. Offering seven or eight seafood items from shrimp to fish, Morrison's is billing itself as "the best seafood restaurant in town." One bonus: Shrimp and fish boost tray averages.

In recent months Morrison's has also taken aim at Duff's Smorgasbords, without mentioning the competitor by name. Likening all-you-can-eat operations as places to "pig out," Morrison's anti-Duff's ads stress quality over quantity.

In addition, the chain is testing later closing hours at about 15 locations, staying open until 9 p.m. instead of closing as early as 8 p.m. The test is running in Atlanta and along the Gulf Coast and could be extended to Morrison's main Florida market this winter.

Morrison's is also beefing up its operations. Under a new policy, each unit is getting another manager, bumping up the number of supervisors to three from two. A new training facility has the job of churning out the 100 new managers needed.

In addition, the company has expanded its middle management ranks, adding 10 new district manager posts. The shift means D.M.'s will also be able to focus on fewer units.

With these moves Morrison's is demonstrating a new emphasis on customer service and marketing, a change executives have long been trying to achieve at the long tradition-bound company.

***On the operations front,** Morrison's is beefing up its middle management ranks and demonstrating a new emphasis on customer service and marketing.*

MORRISON INC.

(Fiscal Year Ended May 31)

	1981	1982	1983	Current Fiscal Year*
Revenues (In Millions)	$320.7	$366.6	$421.5	$485.0
Net Profit Operating Profit (In Millions)	$12.9	$15.7	$18.7	$23.0
Total Units	433	474	486	504
Cafeterias	141	147	151	161
Buffets	11	10	9	9
Ruby Tuesday		18	24	32
Western Steer		2	2	2
Institutional	267	297	300	300
Admiral Benbow Inns	14			
Cafeteria Performance				
Systemwide sales (In Millions)	$223.5	$242.9	$275*	$295
Average Same Store Sales (In Millions)	$1.3	$1.5	$1.7	$1.8
Average Per Tray Check	$3.38	$3.64	$3.94	$4.17
% Menu Price Increase	8.0%	7.0%	7.0%	6.0%
Insurance Subsidiary Unconsolidated Net Profit (In Millions)	$1.1	$0.9	$1.3	$1.4

Source: *NRN* Research

**NRN* Estimate

Besieged by competitors, chain executives remain confident

PICCADILLY

BATON ROUGE, La.—Competitive pressure is taking its toll on Piccadilly Cafeterias Inc. where traffic counts are running 2.5% below the year-ago level.

Furr's, Wyatt, Morrison and Luby's have opened new units near eight existing Piccadilly stores, depressing traffic counts by as much as 15%.

Yet Piccadilly executives remain confident their competitors' gains will be short-lived, for two reasons:

- The markets, according to their research, are big enough to support both Piccadilly and the interloper;
- Piccadilly's fare is generally more highly seasoned than its competitor's, offering consumers a discernible difference they will return to, executives believe.

As a result of the market-share battle, however, sales volumes for stores open at least a year are flat—at about $1.8 million. Average checks, counted by tray in the cafeteria business, are running at $3.49, representing only the 4% average weighted menu hikes instituted in the past year.

Revenues, nevertheless, are climbing in line with new store openings. Piccadilly added four new stores this year and has seven of the eight it plans in 1984 under construction now.

Net profits are headed down. The company, cash-rich and absolutely debt-free, invested its working capital in floating-rate preferred stocks. When the stock market went up, Piccadilly's preferreds went down. The company took a third-quarter $765,000 write-off.

Executives have moved their cash back into traditional hoards such as certificates of deposit. They won't run with floating-rate preferreds again, they say.

PICCADILLY

(Fiscal Year Ended June)

	1981	1982	1983*
Systemwide Sales (In Millions)	$127.2	$142.6	$152.6
Net Profit Operating Profit (In Millions)	$7.8	$8.4	$6.5
Average Same Store Sales	$1.7	$1.8	$1.8
Average Per Person Check	$3.27	$3.36	$3.49
Number of Units	79	81	85
% Menu Price Increase		7.0%	4.0%

Source: *NRN* Research

**NRN* Estimate

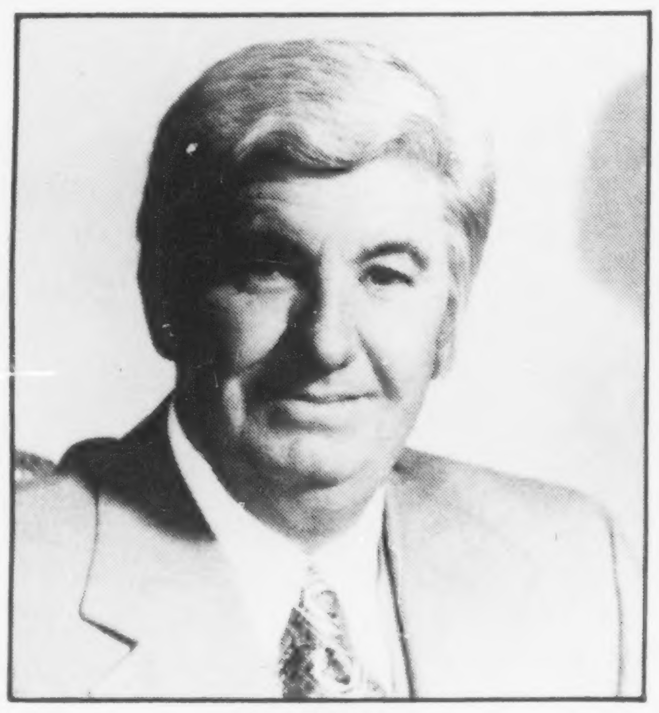
James C. Malmberg
new Piccadilly president

CHAIN ANALYSIS/PART I: CAFETERIAS

Plots ambitious trailblazing in California, the Great Plains

FURR'S

LUBBOCK, Tex.—Furr's Cafeterias Inc. is going where few cafeteria chains have gone before—north into the Great Plains and west into California—and introducing the concept to a market that many doubted existed.



Donald Furr
chairman, ceo, Furr's

"The California market is wide open," said Don Fritz, vice chairman and senior executive officer. He adds, with no more than a trace of doubt, "Maybe there's a reason for that. We'll find out."

Furr's competitors once openly scoffed at the chain's ambitious building plans. But today they are signing with relief, thankful that Furr's is staking out new, untested territory instead of trying to land-grab market share in proven areas.

Furr's built 19 new units last year and closed four. At year end 98 stores were open. This year, Furr's projects 24 to 25 new ones, including two in southern California.

In the Midwest, Furr's has opened stores in Kansas—three alone in Kansas City—Missouri and Colorado. It has edged into Iowa and is headed for Utah.

In both the Midwest and California, it is meeting little competition. And the expansion seems to be paying off big: New units are scoring $1.8 million in annualized sales.

__FURR'S CAFETERIAS__

(Fiscal Year Ended Dec.)

	1981	1982	1983*
Systemwide Sales (In Millions)	$132.0	$159.0	$186.0
Average Same Store Sales (In Millions)	$1.5	$1.6	$1.7
Number Of Units	83	98	118

Source: *NRN* Research

**NRN* Estimate

Competitors' doubts have centered around Furr's ability to staff the new units. But Fritz says new units get six-year veteran managers, whose assistant managers then take over the reins at the old stores.

Furr's competitors are perhaps most envious of Furr's financial wherewithal. As a subsidiary of K mart, the 2,200-store retailer based in Troy, Mich., Furr's easily raised $25 million early this year to retire about $50 million in mortgages on 18 old stores.

Fritz simplifies sale-leaseback financing: "We buy a hunk of ground. Build the building, nothing fancy, just plain and natural. Go sell it to somebody. Take the money and go build another."

Furr's has laid the groundwork for its expansion well. New central commissary facilities for cold and frozen goods were recently doubled in size—big enough to handle 250 to 270 cafeterias. A fleet of trucks—16 tractors and 25 trailors—ferries the goods to units. A new wing at the firm's Lubbock headquarters effectively doubles its size—enough to double corporate staff.

"Present projections," declared chairman Don G. Furr at the offices' ribbon-cutting, "will make us the world's-largest cafeteria chain by the end of this decade."

Volumes stabilize, then rise as peso-shock, recession abate

LUBY'S

SAN ANTONIO—Executives at Luby's Cafeterias Inc. are Texas two-stepping past the twin shocks of a recession that finally reached the Lone Star state and a round of peso devaluations that hit Mexican-border stores hard.

The peso started plummeting to one-fifth its value a year ago this month, but Luby's volumes now appear to have stabilized. In Houston, where Luby's has about 15 cafeterias, the jobless rate has doubled in the past year to 8%, but stores are running fractionally higher customer counts nevertheless.

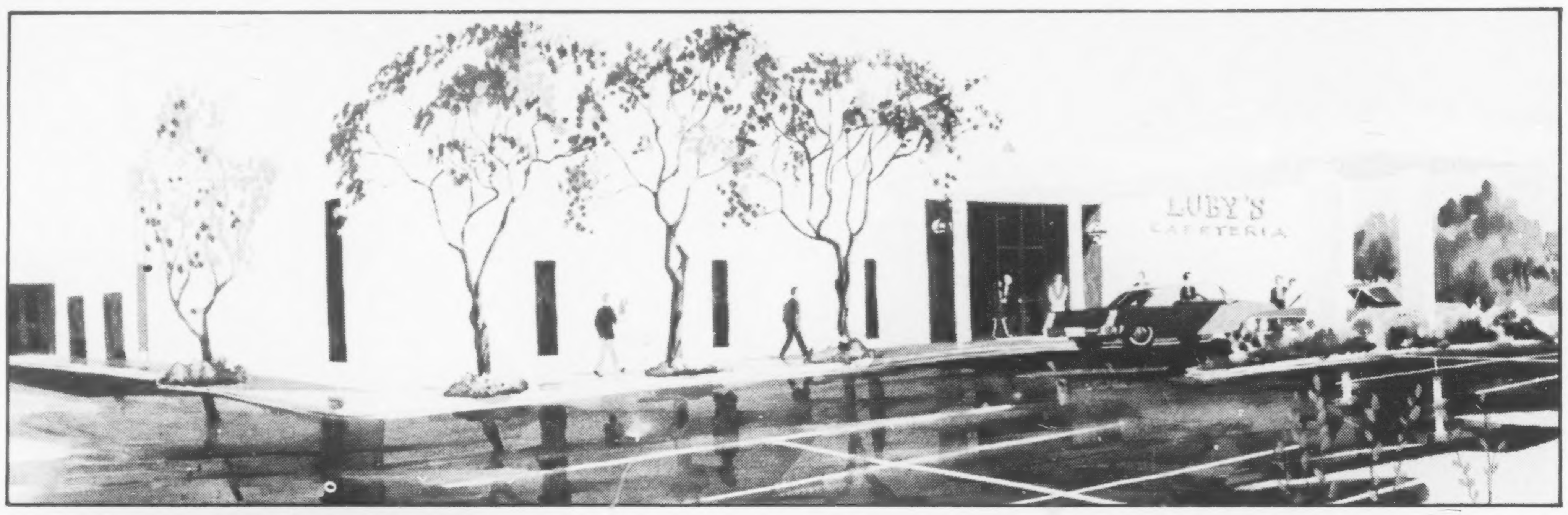
When fiscal 1983 ends at the end of this month, tray averages and unit volumes will have risen in line with 5% menu price hikes and systemwide sales will have charted better than 10% growth on the year. That's up, but less than the gains to which Luby's executives are accustomed.

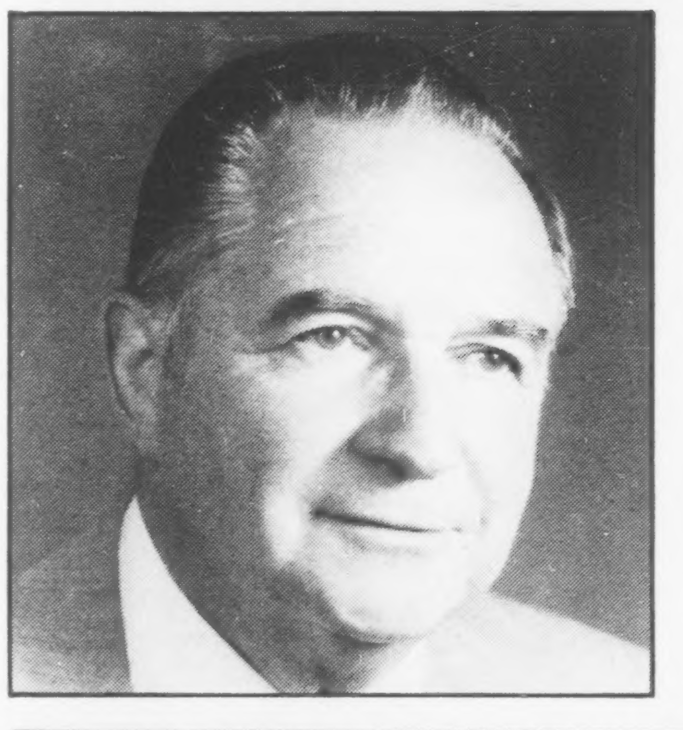
The top and bottom lines on Luby's fiscal 1984 income statement could show 15% to 20% growth in a return to the chain's historical pattern. The reason: Luby's, continuing its 10%-per-year physical-growth policy, will open seven new cafeterias this year. But the real kicker will come from the seven managed units which will become company stores in January.

With peso-shocks bottoming out and recovery expected for the Texas economy by January, Luby's executives will be able to look back at fiscal 1983 as nothing but a short sidestep.

The chain runs some of the highest unit volumes in the segment, $2.4 million a year, and the fattest operating margins, about 10%. Furr's has cut into traffic counts at about three Luby's stores, but the cafeteria segment is known for its easy-going nature.

Executives have no plans to change Luby's debt-free balance sheet, instead financing all construction out of cash flow.





__LUBY'S__

(Fiscal Year Ended August)

	1981	1982	1983*
Systemwide Sales (In Millions)	$118.8	$138.7	$154.0
Revenues (In Millions)	$110.2	$129.2	$146.0
Net Profit (In Millions)	$9.8	$11.6	$14.0
Average Same Store Sales (In Millions)	$2.2	$2.3	$2.4
Average Per Person Check	$3.49	$3.74	$3.93
Number of Units	59	64	70
% Menu Price Increase	9.0%	7.0%	5.0%

Source: *NRN* Research

**NRN* Estimate

Continuing its 10%-per-year *physical-growth policy, Luby's plans to open seven new cafeterias this year. (Left) George H. Wenglein, chairman and ceo.*

Well-heeled franchisees providing momentum for growth

DUFFS

FAIRFIELD, Ohio—Positioned with a concept all its own, Duff's Smorgasbord breaks onto the *Nation's Restaurant News Top 100* charting growth uncharacteristic of the capital-intensive cafeteria segment.

The chain expects a net addition of 23 new restaurants this year for a projected December year-end total of 160. The newest restaurants seat 400 and rack up close to $2 million in annual sales. They are replacing older units, sometimes as small as 200 seats, doing less than $1 million a year in volume.

Duff's owes its growth to a small band of well-heeled franchisees. It is the only chain in the segment that franchises. No other chain, except perhaps for K mart-owned Furr's, is growing as fast.

In addition to its growth strategy, Duff's is built on a unique concept: fixed prices, all-you-can-eat.

Customers generally pay $3.25 at lunch, $4.25 at dinner. They serve themselves from an entree steam table that revolves continuously through the kitchen and dining room.

For customers, so-called "circl-serv" means shorter lines and fewer bottlenecks. For Duff's, "circl-serv" means faster turns and lower labor costs.

Recent organizational changes have sparked rumors in the industry that the chain is gearing to go public. The move was expected this month but now appears to have been postponed to next spring.

Homer Duff, who founded the chain in 1967, remains chairman and chief executive, but Brett Hutchens, a former vice president, has moved into the presidency.

__DUFF'S__

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Systemwide Sales (In Millions)	$121.0	$165.1	$200.0
Average Same Store Sales (In Millions)	$1.0	$1.1	$1.2
Number of Units	121	137	160

Source: *NRN* Research

**NRN* Estimate

CHAIN ANALYSIS/PART 1: CONTRACT FEEDERS

A sharp downturn in America's 'smokestack industries' has had a profound effect on the nation's contract feeders. Forced to find new outlets, the segment has turned its attention toward the white-collar sector, relying on larger numbers of small accounts.

Restructured marketing approach opens way to new flexibility

ARA SERVICES

By Susan Spedalle

PHILADELPHIA—Executives at ARA Services say that the company is moving into a period of greater market penetration thanks to new ceo Joseph Neubauer and last year's restructuring of the company's food-service sectors along marketing, instead of geographical, lines.

Before year-end the company may also open public restaurants in office buildings.

The move away from territories to vertical market segments for the hospital, college, at-work and business dining sectors—plus the hiring of some new marketing people in the different sectors—has made ARA better able to handle the needs of each sector, according to ARAserve president John Farquharson.

Specifically, ARA can now take on smaller contracts, 200 people or more, in the at-work sector and provide the account with attended services instead of only vending machines. Before the reorganization of the at-work sector, an account as small as 200 people would have been too expensive for a company to subsidize and would provide little profit for ARA.

Farquharson also said that ceo Neubauer has given each business unit more autonomy and the ability to make decisions on their own.

Since the restructuring, the sectors have increased their number of accounts and decreased the number of accounts lost each year.

The company is also working on a number of experiments, one of which is called The Greenhouse. The Greenhouse is a self-contained, prefabricated, attended service which can easily be established at or removed from a company site. The flexibility of the system will mean greater services for ARA accounts.

Market research conducted by ARA has shown that in some cases public restaurants are the best way to provide food service for office buildings. "In the case of multitenant buildings," said Farquharson, "there is no one company that wants to put in a company cafeteria. So we may find ourselves going into the public restaurant business."

Farquharson said that ARA is seeing the economy strengthen slowly, and has already felt a small recovery in the auto and farming industries, but real recovery will probably be in the fall of 1984.

ARA purchased Solon Automated Services at the end of this year's quarter for $100 million. The Washington-based company provides laundry equipment for multifamily houses and owns and operates Sugarbush Valley ski resort in Warren, Vt.

ARA SERVICES

(Fiscal Year Ended Sept. 30)

	1981	1982	1983*
Systemwide Sales (In Billions)**	$1.5	$1.5	$1.6
Operating Income (In Millions)	$53.5	$41.9	$50.4
Average Per-Contract Sales		$850,000	$850,000
Number of Contracts	1,750	2,000	2,300

Source: *NRN* Research

**NRN* Estimate

**Systemwide sales is for food and refreshment sector only and does not include coffee or vending system sales.

Tight management policies usher in era of expansion

SAGA CORP.

MENLO PARK, Calif.—Saga Corp. has embarked on an ambitious expansion drive, capping five years of austerity and cost-cutting under the regime of chariman and ceo Charles A. Lynch.

A major capital outlay for acquisition of the 62-unit Dallas-based Grandy's fried chicken chain signifies a new stance by Saga, which has run lean and mean under Lynch since he was hired as chief executive five years ago.

The company's intention to position itself more strongly in the restaurant business is also revealed in the just-signed agreement to acquire Spoons Restaurants, Houston, a 5-unit upscale burger chain.

Since Lynch took the top spot at Saga, net profit has risen more than tenfold, and revenues have climbed sharply. Estimates for the fiscal year just ended have revenues verging on the billion dollar mark with net profit exceeding $20 million.

While contract feeding handled by four divisions accounts for the bulk of Saga's revenues, it has been the company's restaurant chains which have consistently yielded most of the profits. Lynch has credited continuing moderate food-cost inflation, stringent management cost controls and effective cash management programs for ongoing improvements in operating margins in both restaurant and contract segments.

Symbolic of the kind of tight and effective management policies Lynch and his team have instituted is the company's purchasing task force. The task force went to work almost two years ago, and has since trimmed well in excess of $1 million from Saga's $350-million annual bill.

Sales and margins in the company's restaurant group were up significantly in fiscal 1983. Revenue growth was up 12% in the first half, and another 20% in the third quarter for

(Continued on page 124)

SAGA CORP.

(Fiscal Year Ended June 26)

	1981	1982	1983*	Current Fiscal Year**
Revenues (In Millions)	$819.0	$901.0	$975.0	$1,075.0
Net Income	$25.5	$16.8	$21.0	$24.0
Average Same Store Sales				
Black Angus	$2.3M	$2.4M	$2.5M	$2.5M
Straw Hat	$415,000	$474,000	$499,000	$500,000
Velvet Turtle	$2.0M	$2.0M	$1.9M	$2.0M
Average Contract	$699,500	$754,750	$810,000	$820,000
Number of Units				
Black Angus	73	80	95	105
Straw Hat	204	206	205	205
Velvet Turtle	22	23	23	23
Contract	838	847	857	850
Grandy's				85

Source: *NRN* Research

**NRN* Estimate

***NRN* Projection

***For the third quarter** ended March 26, Saga reported a 44% increase in net profit to $6.6 million, compared to the same period last year. Revenues for the quarter rose 10% to $252 million.*

Courting the white-collar sector, penetrating Sunbelt states

CANTEEN CORP.

CHICAGO—Canteen Corp., a subsidiary of Trans World Corp., is shifting its contract feeding business from the blue-collar employee manufacturing sector to the white-collar service market, including banking, insurance and high technology.

The recession has greatly reduced the nation's smokestack employment, and in turn, Canteen's manufacturing accounts. The company's major food and vending accounts in the automobile, farm implement, aerospace and consumer durables industries have traditionally suffered heavily during economic downturns.

Among Canteen's prime concession targets are nonindustrial commercial accounts, white-collar and Government office complexes, health care facilities, fee-based food-service operations, educational institutions, leisure markets, airports, schools and plazas, hospitals, zoos, convention centers, giftshops, municipal and state parks and major sports arenas like Yankee Stadium.

Specifically, Canteen has intensified its assault on white-collar contracts like the United Nations' concession stands, giftshops, cafeterias and dining room (taken over last year from Trusthouse Forte), the A.T.T. headquarters in New York, the New York Stock Exchange and the NASA Space Center at Cape Canaveral in Florida.

In addition, Canteen is trying to balance its geographical concentration in the industrialized states by broader penetration into the Sunbelt areas, with their prospect for population and economic growth.

The flagship project in Canteen's market reorientation is the brightly colored Gulliver's Deli, known as "The Giant Sandwich Maker." Canteen plans to expand its current 17-unit block by 15 a year until there are 100 Gulliver's locations nationwide.

"Our largest capital expenditures, between the expansion of Gulliver's and the southeast and southwest markets, will be made this year," said H. Kenneth Hatter, Canteen's director of marketing and product planning.

Canteen's food and vending division revenues in North America declined 7.6% last year to $517 million. The division now constitutes 57.5% of the company's annual revenue, down from 65% last year. Meanwhile, the concession division's volume grew 9.1% to $69.8 million.

Company profits of $22.9 million were slightly lower than 1981, even though revenues declined by 4.6%, or $36.7 million to $754 million.

Canteen is also expanding the scope of its "by the ounce" program, in which budget conscious patrons can determine the portion size and therefore the price of their meals.

"We are restructuring and streamlining our operations to move toward the white-collar market, but we're not going to abandon the industrial blue-collar market," said Canteen's president and chief executive officer since 1981, James T. McGuire.

Of Canteen's 950 cafeteria or executive dining room units, about 850 are company owned and operated and 90 franchised from a national organization.

CANTEEN CORP.

(Fiscal Year Ended Dec. 17)

	1981	1982	1983*
Revenues (In Millions)	$790.4	$753.7	$825.0
Net Profit (In Millions)	$21.9	$20.6	
Number of Accounts	850	920	975

Source: *NRN* Research

**NRN* Estimate

CHAIN ANALYSIS/PART 1: CONTRACT FEEDERS

Moves ahead with expansion despite lagging airline business

MARRIOTT

BETHESDA, Md.—Airline passenger traffic is on the rise after sharp downturns last year, but not enough to cheer Marriott's contract food-service group which operates 75 domestic and foreign flight kitchens and 45 airline terminal restaurants, lounges and concession stands.

Most of the gains in sales and operating income reported by the group are the direct result of Marriott's acquisition last year of Host International, whose flight kitchens and airline terminal shops were incorporated into Marriott's contract food-service group.

While awaiting a comeback in airline travel, increased airline food service and more spending by consumers at airline terminals, Marriott is moving ahead with plans to expand the group's food-service management division, which has reported strong gains in its health care and business feeding.

Francis "Butch" Cash, the corporate senior vice president who is credited with helping infuse life into Marriott's Roy Rogers fast-food chain starting in 1980, has been placed in charge of food-service management. He is also responsible for Roy Rogers, corporate procurement, distribution, and Courtyard by Marriott, the company's fledgling motel chain.

Food-service management provides meals to 150 executive dining rooms and employee cafeterias; 110 health care facilities; 20 colleges and universities, and at 12 tollroad restaurants in Delaware and New Jersey.

A weak link in the relatively strong food-service management division has been the 14 Marriott Restaurants on the New Jersey and Delaware turnpikes. Operating profits were off in 1982 due to a drop in customer counts.

Marriott two months ago turned two of those restaurants over to its restaurant group. The units have been converted into combination Big Boy coffee shops and Roy Rogers fast-food units in an experiment. If successful, further conversions will be made.

Sales and customer counts were up in the first few weeks of operation at the two converted units, according to a restaurant group spokesman.

Food-service management is seeking out new health care accounts

Marriott does not break out operating results of its divisions, but a spokesman said profits were up in each of the three divisions in 1982, with most gains due to the Host acquisition.

Operating income for the contract food-service group rose 23% to $51 million on a 36% sales increase to $820 million in 1982 compared with the previous year.

But sales and profits were hit hard by a downturn in airline travel, cutbacks by airlines in on-board feeding, Marriott's inability to raise prices charged to airlines for meals served on board, and economic and political crises in Latin America.

A dropoff in airline passenger traffic also meant lower sales at Marriott's restaurants and concession stands in airline terminals. And even when more pople started flying earlier this year, they were spending less at the terminals.

Recreation, dining offset slip in vending

SERVOMATION

STAMFORD, Conn.—Though the recession decreased Servomation Corp.'s vending operations sales, the contract feeder's recreation and dining services sales continue to increase.

However, Servomation's vending operations still account for about 66% of company revenues while the dining and recreation segments have grown to represent the remaining 34%.

"While results from dining and recreation services improved significantly in 1982, the depressed level of industrial employment affected revenues and earnings from vending operations over the past two years," said James Ellwanger, Servomation's vice president of finance.

Servomation is a subsidiary of City Investing Co. of New York, which acquired the company in 1979. Servomation revenues increased from $518 million in fiscal 1981 to $533 million in fiscal 1982, but net income dipped from $27 million in fiscal 1981 to slightly under $23 million in fiscal 1982.

SERVOMATION

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Revenues (In Millions)	$518.0	$533.0	$550.0
Net Profit (In Millions)	$27.0	$22.8	

Source: *NRN* Research

**NRN* Estimate

Servomation services thousands of clients including more than 300 of the Fortune 500 companies. The company serves industrial plants, shipyards, health-care facilities, correctional institutions, schools and universities, executive dining rooms, office cafeterias, convention centers and a variety of recreational facilities. Accounts include General Motors plants; AT&T and IBM office complexes; The Rose Bowl, Cleveland Municipal Stadium and Jack Murphy San Diego Stadium; Arlington Park and Yonkers Racetracks; Joliet Prison, and Stanford University.

Servomation provides 24-hour food service through 80,000 vending machines installed at plant, office and public locations.

Second major acquisition bolsters Reynolds subsidiary

SERVICE SYSTEMS

BUFFALO, N.Y.—Service Systems, the contract feeder owned by the R. J. Reynolds Industries Development Corp., recently completed its second major acquisition in less than two years.

Service Systems bought Manning's, an institutional contract food-service firm based in San Francisco. Manning's 300 clients, located primarily in the West, Midwest, Alaska and Hawaii, include business and industries and health and life care accounts.

By acquiring Stouffer's Management Corp. in January 1982, Service Systems added 115 accounts and increased fiscal 1981 revenues of $230 million to $280 million in fiscal 1982. Service Systems' services range from full-line cafeterias to executive dining and meeting rooms. The company now services about 1,500 restaurant, cafeteria and vending machine locations throughout the United States.

"We're particularly strong in the health and life care accounts area," said Polly Howes, an R. J. Reynolds spokesman. "This fiscal year we're turning our attention to growth markets like public and secondary schools, cafeteria services and separate building maintenance programs." Last year Service Systems landed more public and secondary school food-service accounts

Service Systems is also targeting public institution custodial and security contract services. The company's latest client promotion is T.R.I.M., The Right Image of Me, a nutrition education program.

Marginal accounts dropped; targets white-collar market

INTERSTATE UNITED

CHICAGO—Interstate United, like many in-plant food-service and vending companies, will continue realigning its business and institutions division to capitalize on white collar expansion and offset its diminishing blue collar market segment.

At least half of Interstate's $400 million annual sales is generated by its 1,300 B&I account operations in 40 states. Vending machines still account for 70% of sales, while dining rooms and cafeterias (which serve an estimated 15 million meals weekly) provide 30%.

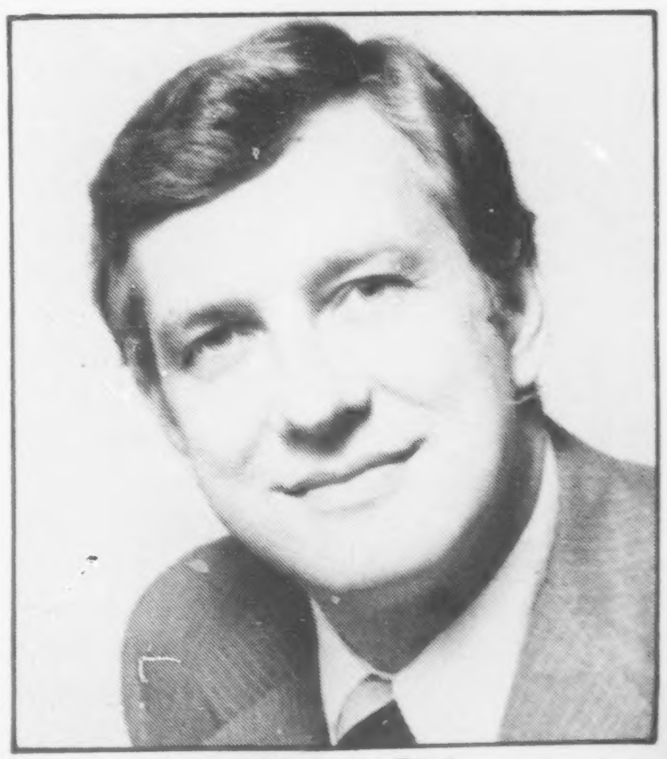
"We've eliminated marginal accounts and installed strong operations and financial controls," said Interstate president and ceo James Rost, who vowed not to completely abandon industrial feeding markets.

Interstate's B&I group, headed by Richard Stein, has numerous office building contracts, including Chase Manhattan Bank and Bankers Trust headquarters, McGraw Hill and the Prudential Insurance Co.

Interstate business has decreased at industrial plants like U.S. Steel and Republic Steel. But at the Vought Corp. airplane parts offices and factories in Dallas, Interstate's white and blue collar feeding services have been growing, according to a company spokesman.

Interstate runs food-service concessions at over 40 indoor arenas and various concert halls, multipurpose arenas, rock concert arenas and circus facilities.

Rost plans to further Interstate's involvement in health care facilities, schools and colleges, stadiums, arenas and convention centers.



James A. Rost
president and ceo, Interstate United

Tight policies usher in era of growth

SAGA CORP.

(Continued from page 123)

the combined Stuart Anderson's, Straw Hat Pizza and Velvet Turtle chains.

The restaurant group may get a bigger boost this year with the addition of Grandy's, a solid representative of the industry's growing country-style chicken and biscuit segment. Acquisition of Grandy's, which had systemwide sales of $48 million and corporate revenues of $22 million last year, was expected to close Aug. 1, the same date as the proposed Spoons closing.

The Spoons buy was set into motion when an earlier bid for Dallas-based Chili's, another high-class hamburger concept, fell through.

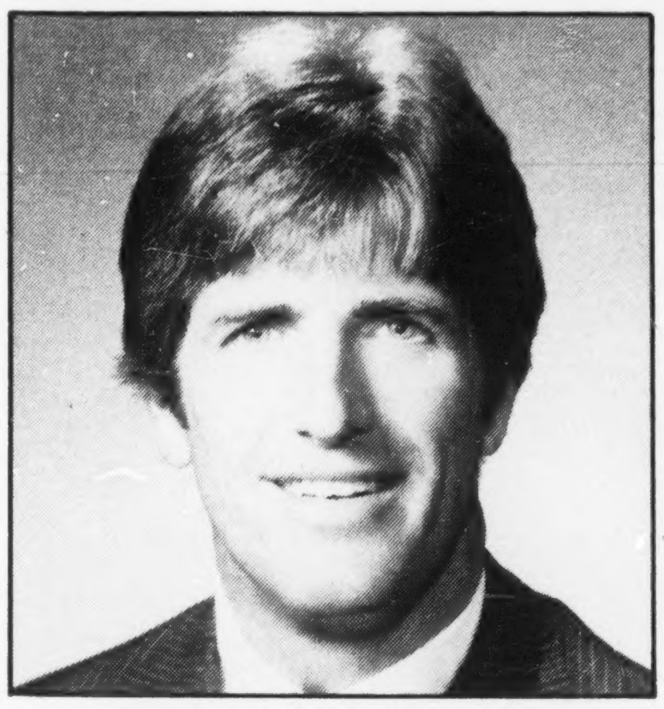
Through the nine months ended March 26, Saga reported net earnings of $18.4 million, compared to $13.9 million for the same period the year before—a 32% jump. Revenues rose by 8% to $729 million for the same nine-month span.

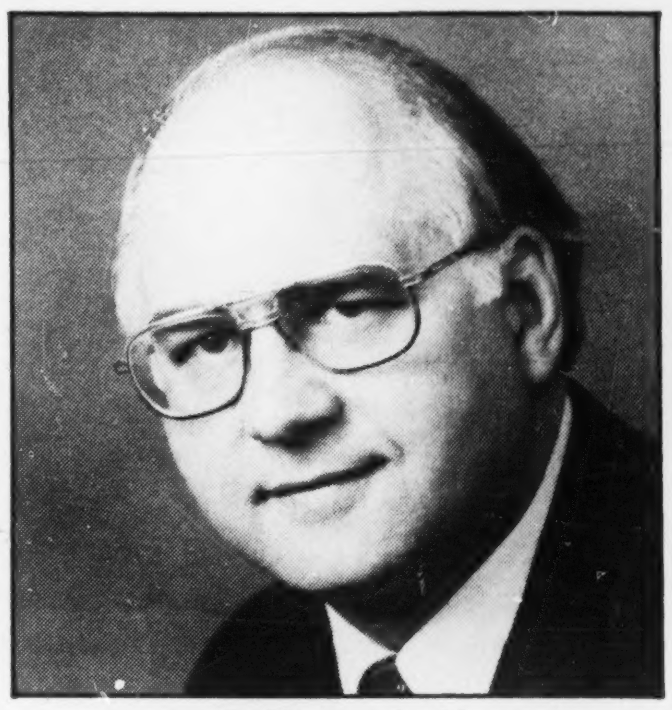
The 90-unit Stuart Anderson's Black Angus/Cattle Co. chain continued its strong position among Saga's chains, with per-unit sales of about $2.5 million for the year. Big gains in lunch and dinner counts were reported from the introduction of meal promos. Older units were systemically remodeled to increase dining capacity and modify lounges for a new recorded music format.

The Straw Hat Pizza division reported pizza counts up compared to last year. A "Fresh-to-Bake Pizza" concept was introduced; consumer acceptance of the bake-at-home product was favorable, the company reported. Straw Hat also introduced a down-scaled "Express" unit format, emphasizing a home delivery service concept in the first few units.

Customer counts were down for the year in the Velvet Turtle group, and new lunch and dinner menus and wine lists were introduced to help boost traffic.

CHAIN ANALYSIS/PART 1: CONTRACT FEEDERS


Daniel M. Goodyear
president, Sportservice


R. Thomas Prohl
vp, controller, Sportservice

Aggressive bidding effort set for Olympics, '84 Fair

SPORTSERVICE

BUFFALO—Sportservice Corp., a food-service concession company founded in 1915, will probably increase its horse track and jai alai fronton fine dining accounts in the coming fiscal year. The company also plans to bid aggressively on the concession contracts for the 1984 World's Fair and Summer Olympics.

Effective January 1983, Daniel M. Goodyear replaced Herbert E. Ring as president of Sportservice. Goodyear has vowed not to alter the short- or long-range direction of the company.

"Sportservice will continue to concentrate on its traditional market areas—professional sports centers and entertainment and convention centers," said Susan D. Wells, a Sportservice spokesman. Sportservice services almost 70 accounts in about 40 states and several foreign countries.

Company revenues climbed from $100 million in fiscal year 1981 to $110 in fiscal 1982. Company officials predict fiscal 1983 revenues of $120 million. Sportservice is a wholly owned subsidiary of Delaware North Companies Inc. of Buffalo, N.Y.

One of Sportservice's most extensive new accounts is the Washington, D.C. Convention Center. The company provides food service in the convention center's lounges, cafeterias, catering kitchen and permanent and portable concession operations.

Sportservice serves everything from snack and ethnic foods to gourmet fare. Clients include major league baseball stadiums; National Hockey League arenas; National Basketball Association arenas; National Football League stadiums; Major Indoor Soccer arenas; thoroughbred, harness, quarter horse and greybound racecourses; jai alai frontons; convention, business and industrial centers.

SPORTSERVICE CORP.

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Revenues (In Millions)	$100.0	$110.0	$120.0
Number of Accounts	54	60	66

Source: *NRN* Research

**NRN* Estimate

De-emphasizes vending; plans shift toward manual feeding

MACKE

CHEVERLY, Md.—Macke, a business, industry, military installation and educational institution contract feeder, is moving into manual in-plant feeding and de-emphasizing its vending operations. Macke services approximately 1,600 accounts in 22 states and the District of Columbia.

"The recession hurt us, but the slight improvement in the economy has resulted in improvements at our old customer locations, which have been restoring their work forces and reopening their plants," said Harry Conn, financial vice president of Allegheny Beverage Corp. of Baltimore, Macke's parent company.

Macke food-service and vending programs made inroads in Houston recently with six Macke Marts, a self-service system offering a wide variety of foods and beverages, set up for a leading engineering firm. Several new accounts were also added in Wisconsin, Iowa and Minnesota.

"College food-service operations are another prime target for growth in our food-service and vending segment," said Conn. "The marketing effort are aimed at colleges with traditional resident student programs, as well as colleges with large commuting student populations."

Macke is attempting to take advantage of Allegheny's other divisions in selling its food-service and vending programs to prospective cleints. "We try to piggyback on our laundry services and building maintenance services in attracting potential food-service customers," said Conn.

Macke's total food-service revenue increased from $201 million in fiscal 1981 to $214 million in 1982 while operating profit was up from $11.6 million to $14.3 million. Macke provides executive dining room, self-serve, plant cafeteria and vending food services.

MACKE COMPANY

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Revenues (In Millions)	$200.5	$214.4	$230.0
Net Profit (In Millions)	$11.6	$14.3	
Number of Accounts	1,600	1,600	1,650

Source: *NRN* Research

**NRN* Estimate

Operations reach expanding to add housekeeping accts.

SEILER

WALTHAM, Mass.—Seiler Corp., a $150 million-plus food-service management company, is expanding its health care, education, white- and blue-collar feeding and vending operations to include housekeeping accounts.

The new housekeeping accounts will encompass linen and laundry services, according to Richard Melgard, Seiler's senior vice president of sales and marketing.

"Ninety-five per cent of our total business is in food management, with the other 5% in manufacturing," said Melgard. Seiler's revenues increased from $135 million in fiscal year 1981-82 to more than $150 million in fiscal 1982-83. Seiler's hospital/health care dietary division accounts for 60% of its food-management business, added Melgard. The company has in excess of 700 food-service accounts.

Seiler services about 70 hospital/health care accounts and 40 school, college and industrial accounts. Industrial contracts constitute approximately 20% of Seiler's business.

Seiler services the mid-Atlantic region in addition to the Northeastern sector. The company was founded in 1932 and acquired by Phillip Gorman and James Cochrane in 1954.

"We service everything from executive dining rooms in banks and insurance companies to manual dining rooms and vending machines in industrial plants.

Seiler's latest hospital/health care accounts are Children's Hospital Medical Center in Boston and the Leahy Clinic in Burlington, Mass.

'Spectacular' account enlivens prospects

SZABO

OAK BROOK, Ill.—Szabo Food Service, a contract feeder specializing in manual food-service operations, increased its total sales by $10 million in fiscal 1982 and recently landed a "spectacular" new account, according to company vice president/secretary treasurer/general counsel Peter Cowles.

Szabo's gross volume jumped from $133 million in fiscal 1981 to about $144 million last year. But net earnings decreased from $2.4 million in fiscal 1981 to almost $612,000 during the past fiscal year.

Szabo's financial prospects are bright, considering the 10-year concessions contract the company signed earlier this year with Wrigley Field, home of the Chicago Cubs' major league baseball team. Terms of the contract were not available.

> ***'We're holding our own with new business relative to lost business and declining population.'***

"Our sales have improved during the recession because of good new accounts like Wrigley Field," said Cowles. "We're holding our own with new business relative to lost business and declining population."

The Wrigley Field contract is Szabo's second professional baseball account. Szabo also runs the concessions operation at Anaheim Stadium, home of the California Angels. "Certainly, we'd be happy to land new sports accounts," said Cowles, "we like that kind of business."

Szabo will continue to "actively compete" for business and industry, leisure facility and health center accounts, added Cowles. In fiscal 1981-82 Szabo signed contracts with IBM, *The Chicago Tribune*, Cincinnati Bell Telephone and The State University of New York Downstate Medical Center in Brooklyn, N.Y. Szabo accounts range from small cafeterias to elegant executive dining rooms.

SZABO FOOD SERVICE

(Fiscal Year Ended Sept. 30)

	1981	1982	1983*
Revenues (In Millions)	$133.4	$143.6	$155.0
Net Profit (In Millions)	$10.3	$8.1	

Source: *NRN* Research

**NRN* Estimate

SEILER CORP.

(Fiscal Year Ended Sept. 30)

	1981	1982	1983*
Revenues (In Millions)	$135.0	$150.0	$170.0
Number of Accounts	686	704	722

Source: *NRN* Research

**NRN* Estimate

CHAIN ANALYSIS/PART 1: HOTELS

Faced with an ongoing downward spiral in room occupancy rates and near-saturation in some markets, major hotel chains are branching out, furiously adding new concepts in a concerted effort to stay ahead of their competitors.

Convention hotels, motels to broaden market coverage

MARRIOTT

By Joe Edwards

BETHESDA, Md.—Marriott Corp. is broadening the scope of its fast-growing hotel business by building huge downtown convention hotels, testing a midpriced motel concept and stepping up expansion overseas.

These moves do not signal a retreat from Marriott's core hotel business, which is operating medium-sized, upper-end properties that appeal to business travelers. In the next few years at least, Marriott will concentrate on this segment.

Diversification, however, is seen as a way of facilitating and supplementing growth of the company's hotel group, protecting Marriott from continued softness in commercial hotel business and fully utilizing the vast resources of the diversified lodging and food service company.

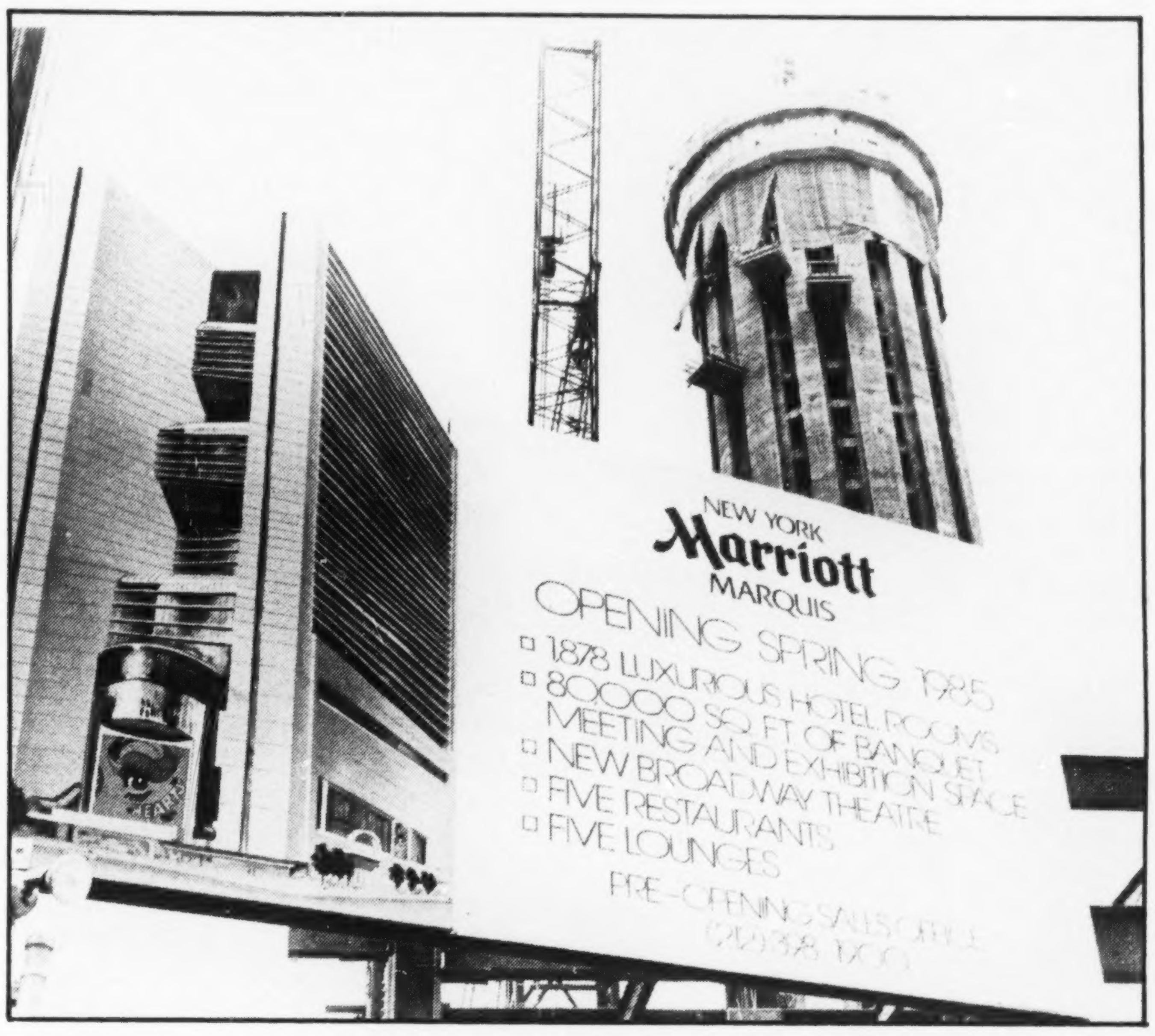
J. Willard Marriott
chairman, Marriott Corp.

Marriott officials in the last year have repeatedly indicated they are interested in further hotel group diversification. They have studied the feasibility of many types of lodging facilities, including budget hotels, all-suite properties, and casino-hotels, and have talked about acquiring existing hotel chains.

Having identified hotels as its primary growth vehicle, Marriott has increased the size of its hotel system at a rate of 20% a year over the past few years. By 1985, there will be 75,000 rooms in 150 hotels bearing the Marriott name, compared with 49,600 rooms in 118 properties at the end of 1982.

While continuing to build its traditional medium-sized properties, Marriott in recent months has moved in other directions, which are summarized here.

Convention Hotels: Marriott is building two dazzling hotels, the 1,880-room Marriott Marquis on Broadway in New York and the 1,670-room Atlanta Marriott Marquis. The hotels are flamboyantly designed and have large public atriums, indoor shopping centers, vast meeting and banquet facilities, and numerous restaurants and lounges. The cost of the New York hotel alone will exceed $300 million.



***Going up:** Marriott's most dazzling hotel to date is going up in midtown Manhattan—a convention property with 1,880 rooms costing more than $300 million.*

Courtyard by Marriott: The company surprised the industry in late spring by disclosing its plans to test five "modern country inns" in Georgia. The motels, which will open late this year and early 1984, will have fewer than 150 rooms each, room rates of $45 to $55 a night and small coffee shops. They will compete in the midpriced category with chains such as Holiday Inn, Days Inn, Ramada Inn and Quality Inn. The Courtyards will have few amenities—swimming pools and color TVs, yes, but bellhops, doormen and room service, no, and they will cater to the family trade.

"Customers in this category will be responsive to better quality and value, and we feel confident that the Courtyard concept will provide it," says Bill Marriott Jr., president and chief executive. He noted the midpriced category is the largest in the lodging industry, with about 750,000 rooms.

Courtyard by Marriott is a test. In a year, the company will decide whether to expand the concept nationally after officials evaluate sales, occupancy rates and whether the Courtyards are stealing customers from regular Marriott hotels.

Marriott is moving into the midpriced category at a time when many chains such as Holiday Inn and Ramada Inn are developing upper-end chains of their own to compete with Marriott.

Overseas Expansion: Marriott is building its 13th foreign hotel in Vienna and has expressed interest in opening hotels in major European cities. The only other European Marriotts are in Amsterdam and Athens. Marriott also has hotels in Mexico, Jordan, Egypt, Kuwait, Panama and Saudi Arabia.

Occupancy rates at Marriott hotels fell about two percentage points in 1982. Chainwide occupancy is about 77%, or 10 percentage points higher than the industry average. The hotel group posted a 15% rise in operating income to $133 million on a 32% rise in sales to $1 billion in 1982. Total Marriott sales were $2.5 billion last year.

By the end of this year, Marriott will have opened 12 new hotels and expanded the size of four existing properties for a total of 5,200 new rooms. Marriott manages 78% of its hotels, which are owned by others. Officials have expressed an interest in selling equity in some of the remaining company-owned hotels, which are valued at about $800 million.

Upper-end chain, all-suite hotels planned

HOLIDAY INNS

MEMPHIS—Holiday Inns Inc., the mammoth hotel, gaming and restaurant company, is developing two new hotel chains but is not forsaking its core business, "the broad middle market," says Robert Milburn, senior vice president.

"Our new efforts will represent a very small part of Holiday Inns," Milburn comments. Despite the company's development of an upper-end chain, Crowne Plaza, and a chain of deluxe all-suite hotels known as Embassy Suites, "Holiday Inns will continue to be what it is today."

Holiday Inns is the world's largest lodging chain, with 1,744 hotels at the start of this year. The company also operates casino-hotels in Las Vegas, Lake Tahoe and Atlantic City and operates and franchises 311 Perkins family restaurants.

Traditionally a roadside lodging chain, Holiday Inns has been moving into more airport and downtown sites in the past few years and upscaling its properties in an effort to attract a greater share of the business travel market.

Its latest attempt to woo more business people is the development of Crowne Plaza, a chain that offers more amenities and a nicer physical hotel layout. The first two Crowne Plaza hotels will open at San Francisco and Miami international airports. Eight others are under construction and 30 other hotels may be converted to the Crowne Plaza concept.

A room at Crowne Plaza will cost about $20 more a night than a typical Holiday Inn room, whose average cost was $41.78 in 1982. By the end of the year, 10 Embassy Suite properties will be under construction.

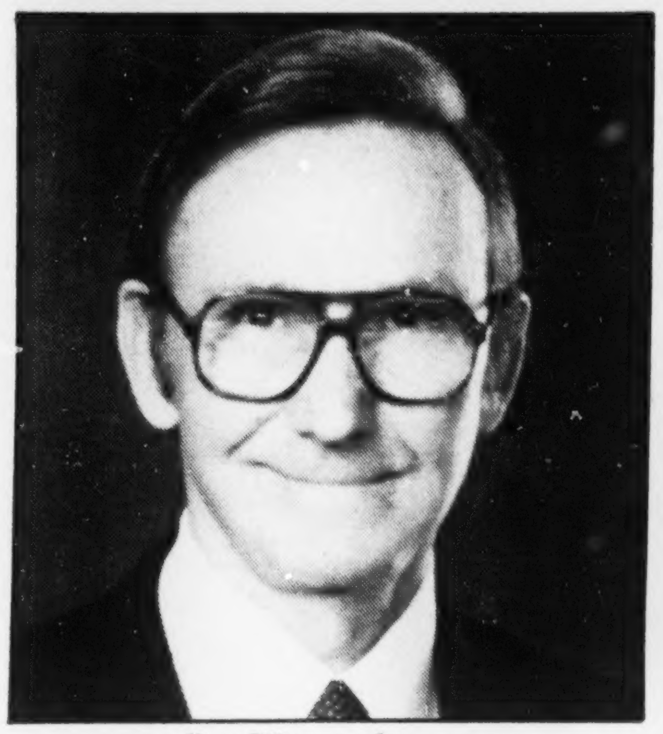
Holiday Inns, which commands a 16% share of the domestic lodging market, is not alone in its diversification into other hotel segments. Major competitors in the moderate-priced segment, including Ramada Inns and Quality Inns, are also going after the upper-end market.

Meanwhile, Holiday Inns has about 16,500 hotel rooms under construction and continues to open one property every five working days. The company also continues to "retire"

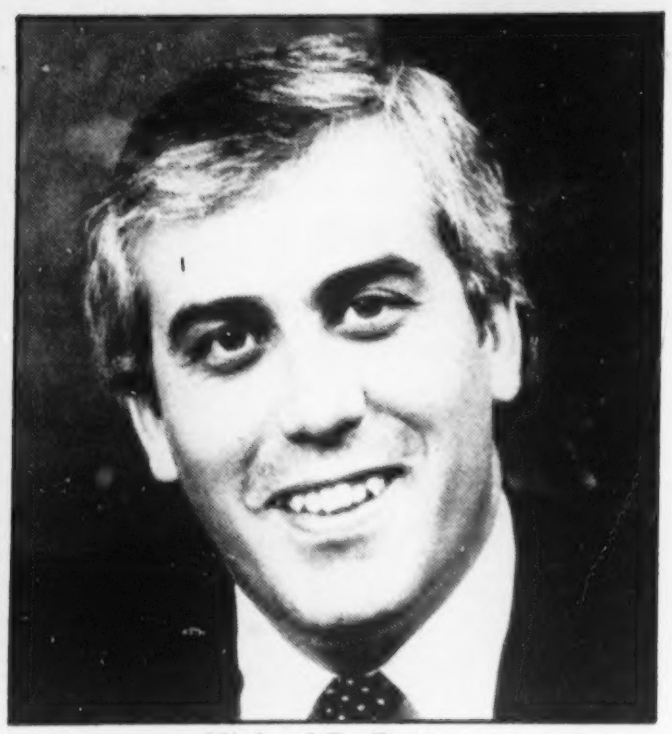
(Continued on page 130)

***New directions:** Holiday Inns will not forsake its midpriced core market with two new concepts: An upper-end chain and a group of all-suite properties.*

CHAIN ANALYSIS/PART 1: HOTELS



Roy Winegardner
chairman, Holiday Inns



Michael D. Rose
president, ceo, Holiday Inns

Upper-end, all-suite hotels planned to augment revenue

HOLIDAY INNS

some older properties, so the actual size of the chain shrunk by seven hotels last year.

The company and its franchisees are spending $120 million this year upgrading existing facilities or converting them to Crowne Plaza or Embassy Suites. Most capital spending is financed with internally generated cash, but Milburn indicated recently that Holiday Inns may be making financing deals now that interest rates have come down.

Net income in 1982 dropped about 45% to $75 million on a 5.4% rise in total revenues to $1.4 billion. The dramatic drop in profits was due to the economy, moderating room rate increases and the sale of Delta Steamships Inc. last December, a spokesman says.

Hotel occupancy rates held steady at 69.2%, the same as 1981, but room rates increased only 2% to $41.78 compared with 10.8% in 1981 and 12.7% in 1980. Food and beverage sales at hotels dropped in 1982, contributing to the 14% drop in hotel group operating income to $150.2 million.

Operating income in the gaming group rose more than 32% to $74.5 million in 1982, mostly due to the success of Harrah's Marina in Atlantic City, N.J., Holiday Inns is building a second Atlantic City casino-hotel in a 50-50 joint venture with the Trump Organization.

The 600-room hotel will have a 60,000-sq.-ft. casino. It is situated on the Boardwalk adjacent to the city's Convention Center. Harrah's Marina is a couple of miles away on an inlet.

Holiday Inn's family restaurant chain, Perkins, is continuing to struggle. In 1982, operating income rose 6.4% to $6.5 million excluding a provision for loss on the sale of nine company-owned units. Revenues rose 4.4% to $100.6 million.

Customer counts at Perkins have been improving steadily since 1980, when they were off 13.3% compared with 1979. Counts last year rose about 9% vs. 1981's figures. Average guest checks were about equal in the last two years, ranging from $3.50 to $4.

Average unit sales at Perkins restaurants are about $775,000.

HOLIDAY INNS

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Revenues (Millions):			
Hotels	$853.6	$840.6	$880.0
Gaming	$388.1	$472.7	$530.0
Restaurants (Perkins)	$ 96.3	$100.5	$105.0
Other	$ 13.6	$ 11.2	—
Total Revenues from Continuing Operations (Billions)	$1.3	$1.4	$1.5
Operating Income (Millions):			
Hotels	$170.9	$150.2	—
Gaming	$ 56.2	$ 74.5	—
Restaurants (Perkins)	$ 5.0	$ 6.6	—
Other	$ 10.8	$ 4.9	—
Total Operating Income	$244.6	$234.8	—
Income (Millions)	$98.7	$97.2	—
Income (Loss) From Discontinued Operations† (Millions)	$38.7	($21.2)	—
Net Income (Millions)	$137.4	$76.0	$80.0
Average Hotel Occupany**	69.2%	69.2%	67.0%
Average Room Rate**	$40.79	$41.78	$43.00
Number of Hotels:			
Company Owned or Managed	229	230	250
Licensed	1,522	1,514	1,524
Total Hotels	1,751	1,744	1,774
Total Rooms	308,113	312,302	—
Square Feet of Casino Space	184,197	201,463	201,463
Number of Casino Tables	463	483	483
Perkins Restaurants:			
Total	343	311	320
Company	101	94	100
Licensed	242	217	220
% Menu Price Increases	4.8%	1.2%	0.0%
Average Per-Unit Food-Service Sales	$750,000	$772,000	$800,000

Source: *NRN* Research

**NRN* Estimate

**Company-owned and managed hotels only.

†Holiday Inns Inc. sold Delta Steamship Inc. in December 1982.

***Holiday Inns reported** a 9.1% drop in net profit to $22.4 million on a 5% revenue increase to $349.2 million for the first quarter ended April 1, compared with the same period in 1982, Net profits from continuing operations rose 7.7% to $22.3 million in the period.*

Negotiations continue on Braniff purchase

HYATT

ROSEMONT, Ill.—Airlines have developed hotel chains, but Hyatt could become the first hotel chain to own an airline if its Braniff plan flies.

Hyatt Hotels Corp., a management company with 72 properties under its wing, was negotiating feverishly with Braniff's secured creditors to resurrect the Dallas-based carrier from Chapter XI. Already Jay Pritzker, the Chicago entrepreneur whose family owns the hotel chain and much more, has doubled its initial $35 million offer.

In the theory of synergy, where one plus can equal three, observers see far-ranging tie-ins between Braniff and Hyatt.

The 60-year-old Pritzker apparently wants to recreate Braniff as an airline featuring the high-quality, upscale service that Hyatt offers in its hotels. The Hyatt name already has pulling power among business travelers. There is a natural fit in joining plane and hotel reservation systems.

In addition, the Pritzkers own 23% of Elsinore Corp., which with Hyatt, is part-owner of the Playboy Casino in Atlantic City, N.J. Analysts see a myriad of promotional tie-ins.

But whether Hyatt can rescue Braniff, and then make it fly, remains to be seen. Airlines in the past developed hotel chains to service their routes, giving passengers a place to stay in an otherwise underdeveloped land.

United Airlines owns Westin, Aer Lingus owns Dunfy, TWA owns foreign Hiltons. But in recent years airlines have been selling off their hotels—Pan Am sold Intercontinental and American sold Americana.

Pritzker's friends said he was determined to land the airline, but at presstime the deal was still up in the air.

HYATT HOTELS

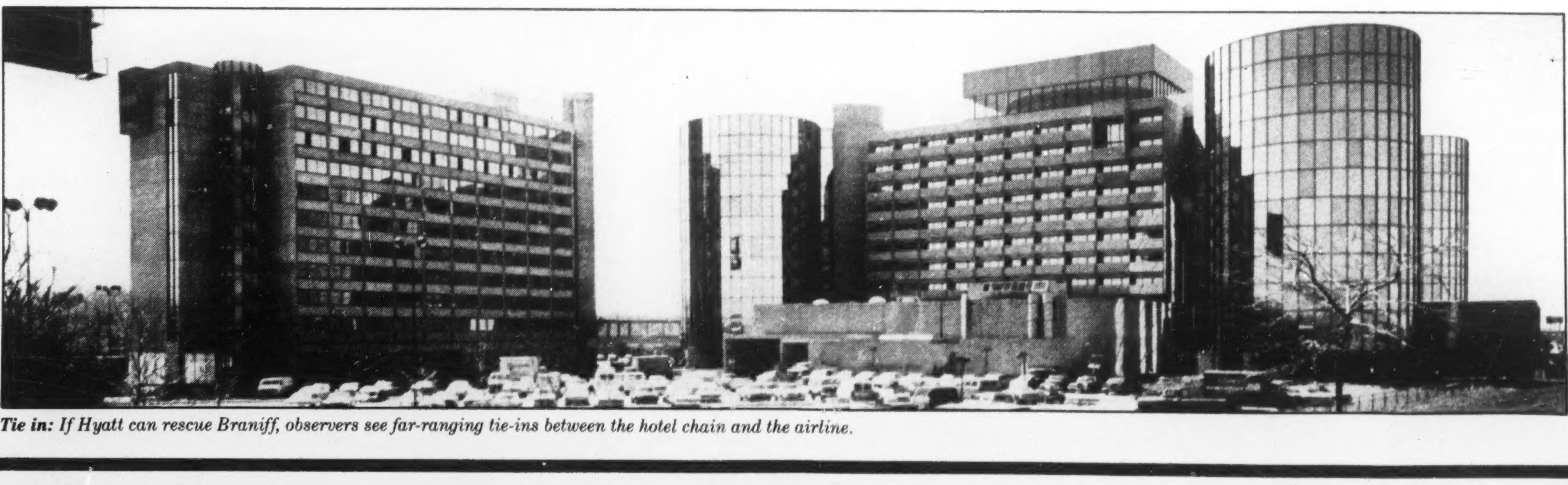
(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Systemwide Sales (In Billions)	$1.0	$1.2	$1.3
Food-Service Revenues (In Millions)	$410.0	$550.0	$600.0
Number of Hotels	62	70	72

Source: *NRN* Research

**NRN* Estimate

Jay Pritzker
chairman, Hyatt Hotels Corp.



***Tie in:** If Hyatt can rescue Braniff, observers see far-ranging tie-ins between the hotel chain and the airline.*

CHAIN ANALYSIS/PART 1: HOTELS

Adopts 'anticipatory stance' to remain competitive in 80's

HILTON HOTELS

BEVERLY HILLS, Calif.—Battered by the recession and engaged in a market share war in the upper-end segment, Hilton Hotels Corp. is taking a long-range view of the lodging business by adopting an "anticipatory stance."

"It's easier to be reactive but far more painful in the long run," says Gregory R. Dillon, executive vice president. Hilton's challenge is to "create properties that will remain competitive throughout the 1980's."

***Hilton Hotels** chairman Barron Hilton with a portrait of founder Conrad Hilton.*

Hilton, whose net income plunged 36% to $83 million in 1982 on only a 1% revenues increase to $620 million, is continuing an expansion program while keeping an eye on market saturation.

The company has 40 properties under development, including a $270 million casino-hotel in Atlantic City, N.J., a 400-room hotel at Changi Airport in Singapore and upper-end hotels in a number of domestic markets, including Miami Airport, Dallas-Fort Worth Airport, Walt Disney World in Orlando, Fla., Los Angeles Airport and Somerset, N.J.

Several of these new properties will be situated in areas where Hilton is not represented. The Singapore property is Hilton Hotel's first in an international market. (Hilton International, a separate company, has the rights to the Hilton name outside this country; the Singapore property will be called Conrad International and will be managed by Hilton Hotels Corp.; Hilton International is developing a chain of hotels in the United States called Vista International.)

"We have to be very careful of overbuilding, creating properties that will not be what the public wants," Dillon comments. He agrees that there is a market share war being waged by Hilton, Marriott, Hyatt, Sheraton and Westin, saying these five chains are "competing for conventions and there's just not that much business out there."

Hilton, which operates 238 hotels in 196 cities, has been concentrating on the development of airport, downtown and resort hotels. A majority of its properties compete for conventions and business travelers, markets hard hit by the recession.

As Hilton continues its expansion, it is trying to reverse a dramatic decline in occupancy rates. The overall rate for Hilton hotels and casino-hotels is about 62%, compared with 67% at the end of 1981.

Hotel occupancy slipped four percentage points to 60% in 1982, and casino-hotel occupancy dropped nine percentage points to 72%. The occupancy rate at Nevada casino-hotels was 72% last year, the lowest since Hilton entered the gaming business in 1970.

On the plus side, Hilton was able to spend $120 million on capital projects and investments last year without any outside financing and has had no long-term borrowing in the last two years.

The new Atlantic City casino-hotel, the company's largest development ever, will be funded by debt securities. The hotel, which will open in mid-1985, will have 634 rooms, a 60,000-sq.-ft. casino, four restaurants and two lounges. Plans call for an additional 1,270 rooms and 50,000-sq.-ft. convention center.

Hilton Hotels Corp. also operates the 3,174 room Las Vegas Hilton, one of the world's largest hotels; the 2,250-room Las Vegas Flamingo Hilton and the 585-room Reno Hilton.

HILTON HOTELS CORP.

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Revenues (In Millions):			
Hotel Rooms	$219.0	$224.0	$230.0
Food & Beverage	$161.0	$164.0	$170.0
Casinos	$145.0	$163.0	$170.0
Casino Promo Allowances	$(21.0)	$(25.0)	$(28.0)
Management and Franchise Fees	$35.0	$37.0	$40.0
Total Corporate Revenues	$613.0	$620.0	$630.0
Net Income (In Millions)	$113.0	$83.0	—
Number of Hotels:			
Company-Owned	17	17	18**
Company-Managed	31	33	40**
Franchised	173	188	220**
Total	221	238	278**
Operating Income (In Millions)			
Hotels	$71.7	$58.8	—
Casinos	$79.1	$52.2	—
Unconsolidated	$42.1	$33.8	—
Total Operating Income	$192.9	$144.8	—
Occupancy Rates:			
Hotels Only	64.0%	60.0%	60.0%
Casino-Hotels	81.0%	72.0%	72.0%
Overall Occupancy	67.0%	62.0%	62.0%

Source: *NRN* Research; company reports

**NRN* Estimate

**At the start of the year, Hilton Hotels Corp. had 40 properties under development; not all of them will open by the end of the year.

Specialized promos planned to boost flagging occupancy

RAMADA INNS

PHOENIX—Ramada Inns is planning strong sales promotion programs aimed at specialized market segments to boost flagging occupancy.

Ramada has reported heavy losses recently, but its Renaissance concept expansion will proceed full speed ahead.

Sales promotion programs such as "Best Years" aimed toward senior citizens and "Female Traveler," aimed toward businesswomen, are also operations programs for Ramada personnel which acquaint hotel employees with guests' special interests.

In restaurants, for example, senior citizens are seated where there is plenty of light to read a menu and those with walkers or canes are assisted to seats near the door.

Other promotions include a "4 for 1" coupon program, which allows families of four to stay at a Ramada for the price of a single room, or the "Pacesetter" program, which freezes hotel rates at last year's prices for business travelers belonging to the Pacesetter Club. Last year the club had 70,000 individual members; this year the membership total is 120,000.

All together the nine programs bring in 38% of total occupancy. Such success has led to the addition of new programs for 1983-84, one of which is the "Ramada Performers." The Performers program awards points to individuals, often secretaries and travel planners, who book Ramada hotels for a second party. The points can be exchanged for catalog merchandise.

RAMADA INNS

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Systemwide Sales (In Millions)	$205.0	$228.0	
Net Profit (In Millions)	$97.0	$102.0	$88.0
Average Same Store Sales (For Company Stores)	$303,700	$480,000	$550,000
Average Per Person Check	$4.64	$4.66	$4.75
Number of Units	675	607	682

Source: *NRN* Research

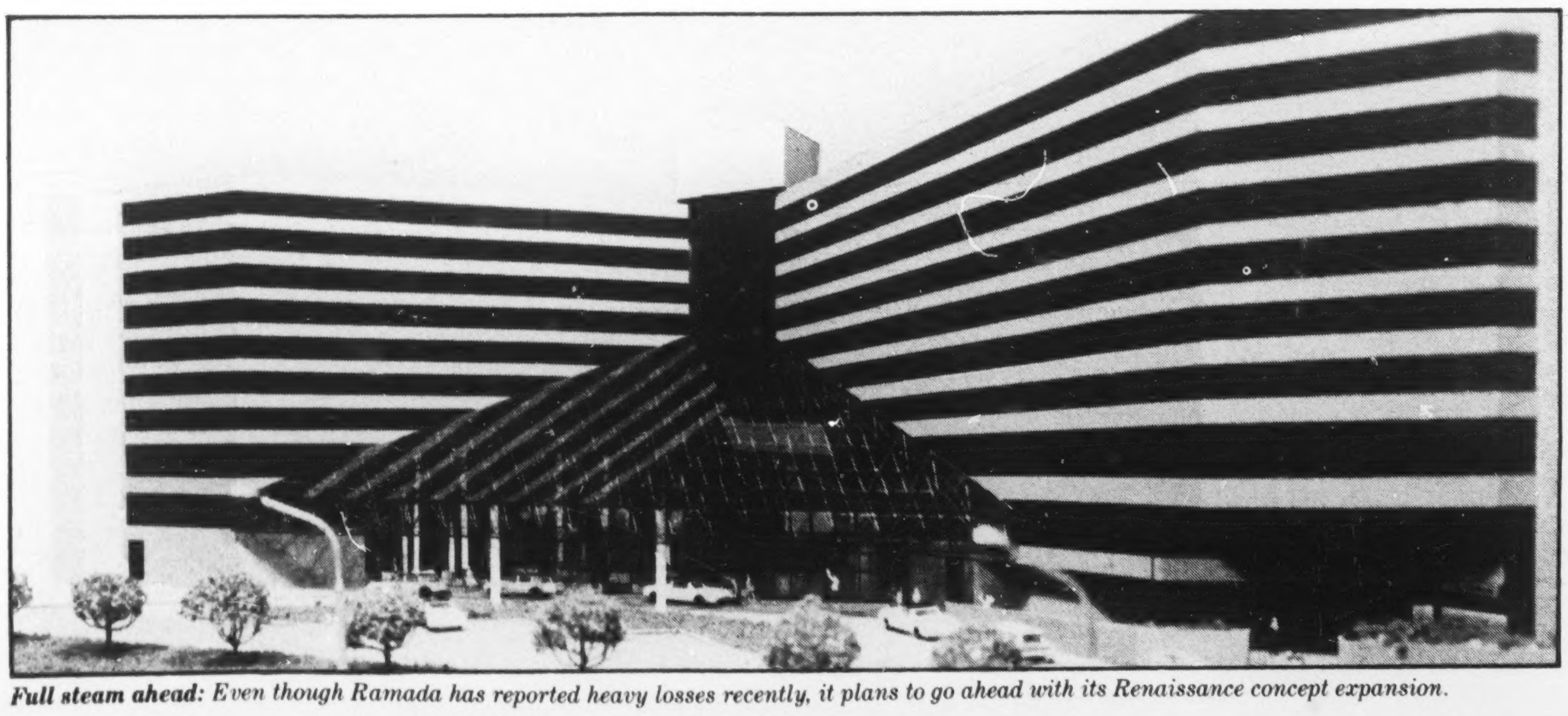
**NRN* Estimate

The recession was most strongly felt in this year's first quarter when the company declared a $6.4 million net loss. Revenues were up a negligible 1.7% to $130 million. (The Tropicana in Atlantic City, which sustained a $3.4 million loss last year, recorded an income of $1.4 million for this year's first quarter.)

High hopes rest on this summer season when Ramada officials say occupancy rates will come back.

"The hotel industry generally lags about six months behind the economy as a whole," says Ron Nykiel, executive vice president of marketing, "and the economy has really just begun to get better. We expect the business travel market to recover this fall."

The chain of Ramada Renaissance hotels will include 16 properties by the end of 1983. All six of the new hotels are on foreign soil and the bulk will open this winter. Next year, however, Renaissance hotels are planned for early spring openings in Saratoga Springs, N.Y., and Denver, Colo., which will get its second Renaissance.



***Full steam ahead:** Even though Ramada has reported heavy losses recently, it plans to go ahead with its Renaissance concept expansion.*

CHAIN ANALYSIS/PART 1: BUDGET STEAKHOUSES

With heavy concentration of units in the still-depressed Midwestern states, budget steakhouse operators continue to bank strongly on an economic turnaround in the near future. Meanwhile, some have turned to alternative concepts with a more upscale twist.

Success formula: Lower checks equal higher customer counts

PONDEROSA

DAYTON, Ohio—Concentrating on its operations in the industrial heartland allowed Ponderosa to increase its leading share of the budget steakhouse market to 35% over the last year, the company said.

Ponderosa did this by dropping its check average to about $3.80, which lies in the $2-to-$4 range where 3 out of 5 meals take place in chain restaurants.

The result: a 5.7% increase in customer counts, and a nudging return to the levels of profitability which Ponderosa enjoyed in the late 1970's. During fiscal 1983, the operator of 682 steakhouses posted net income of $10.4 million—a 25% improvement over the previous year.

Reducing the check average was part of a strategic plan devised by Ponderosa president Gerald Office and his management team in late 1981, when the company's operations were facing a deep recession and high unemployment in many principal markets.

Unlike some of its competitors who were hurt by the same conditions—Bonanza, for example—Ponderosa did not consider leaving the Midwest and the Great Lakes region for the palmier markets of the Sunbelt.

Rather, it decided to take advantage of a relatively unique characteristic among major food-service chains: a high ratio of company-operated units to franchised units, 447 to 235. This means two things: the company has greater control of its system, and it pockets a much greater share of any extra business.

Executives reasoned that even a modest gain in customer counts would more than pay for the measures needed to attract the new business.

The measures were many. One was a revision of the system's menus to comprise more lower-priced entrees. Another was a program to physically upgrade units. Another was advertising: The marketing department engaged a top-of-the-line New York agency to produce a series of television spots asserting that Ponderosa's food has high quality as well as low prices.

The full results of this program are not conclusive. For one thing, many observers of the company speculate that it weathered the recession so well only because so many independent competitors on the Ponderosa price range were driven out of business during the downturn, and may pop up again soon.

And Ponderosa remains vulnerable to increases in beef prices, making it, in the words of one stock analyst, "the most cyclical company in the industry." It has enjoyed some success in diversifying its menu over recent years, but the strong preference for red meat in its major markets could limit movement in this direction.

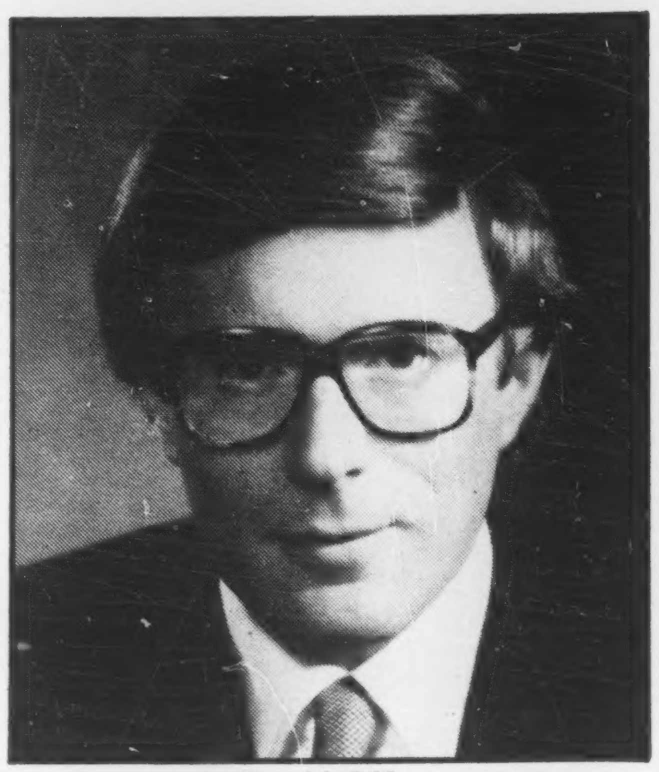
Which may be why Ponderosa has placed some of its chips on a new Mexican dinnerhouse concept, Casa Lupita. Despite suspicions that the segment is overcrowded and due for a shakeout, the company completed the purchase of a small Western chain, Casa Lupita, and began to build units in the east—two steakhouse conversions, and one new building.

The new head of the company's specialty restaurant division, Edwin Ourant, reports exceptionally high average annualized sales from the test unit in Dayton, in excess of $2.5 million.

Ponderosa intends to open as many as 10 of the new restaurants by the end of fiscal 1984, and even wants to begin franchising the concept. But the division is now in a holding pattern while its managers fine-tune operations.

Clearly, great things are expected of the new division: Donald Jackson, chief financial officer, has said that "10 Casa Lupitas could have the same impact on our bottom line as 80 Ponderosas."

But Ponderosa is a latecomer to the Mexican dinnerhouse field. Casa Lupita is coming into its own just as many in the industry are predicting a shakeout.



Gerald Office
president, ceo, Ponderosa

Another endeavor the company placed hope in—the expansion of the Ponderosa system overseas—seems to hold gloomy prospects. Ponderosa has apparently failed to find any willing foreign franchisees, despite the premiere of its show unit in a London suburb.

But Ponderosa's meat-packing subsidiary, ESI Meats, is on the way to fulfilling its promise as a "cash cow." Sales have increased by "more than half" for the division over the last year as it reduces its dependence on the Ponderosa steakhouse system.

Expanding restaurant operations with eye toward West Coast

COLLINS

LOS ANGELES—Bouyed by solid performances of its KFC and Sizzler subsidiary operations in fiscal 1983, Collins Foods has moved to expand all its restaurant holdings, and plans to continue experiments with new concepts and menu modifications.

After selling 44 KFC units in eastern states back to KFC Corp. last year, Collins has now taken steps to acquire 41 KFC units in the Seattle area—a move which would regain for the company its former status as KFC Corp.'s largest franchisee. The proposed acquisition of Gil's Enterprises, the 41-unit KFC franchisee, would also fulfill Collins' strategy of consolidating its fast-food operations in West Coast core markets.

Collins' 71% company-owned Sizzler family steakhouse group expects to develop another 27 new units this year, while adapting more extensive seafood offerings and more elaborate salad bar configurations (from a two-unit California test) into units throughout the chain.

Both the KFC and Sizzler groups will be experimenting with new concepts. Collins' soul barbecue concept, Southside Barbeque Co., will be joined in tests by two more concepts this year, according to Collins president and coo Richard Bermingham.

Sizzler, meanwhile, will continue tests on the upscale Lumber Camp concept and a downscale, semi-smorgasbord concept tentatively called Plain & Simple. The Sizzler stance will continue to be "evolutionary," according to company president Tom Gregory.

Both Collins and its Sizzler subsidiary reported record sales and earnings in their latest fiscal years, compared to restated numbers for the prior year, devised when Collins took Sizzler public during the year and sold 29% of its outstanding stock to outsiders.

Collins posted a 28% increase in net profit for the year ended April 30 to $12.4 million on a 9% gain in revenues to $325.5 million. Sizzler scored a whopping 105% boost in net profit to $5.8 million, compared to last year's net of $2.8 million. For the same period, Sizzler's systemwide sales rose by 9.2% to $353.7 million; revenues were up 12.6% to $128 million.

Collins chairman and ceo James Collins said most of the parent company's gains in the year were due to improved operating results in the Sizzler subsidiary, which accounted for 39% of Collins' revenues. "The favorable performance of the restaurant chain reflects an active remodeling program, improved menu management resulting in increased check averages and increased profit margins resulting from favorable commodity cost," Collins said.

James A. Collins
chairman, Collins Foods

KFC operations, on the other hand, posted only a "modest" increase in earnings, with performance affected by the 44-unit divestiture and a decrease in currency exchange rates which depressed returns from Collins' Australian operations. Overall, KFC units contributed 30% of the company's total revenues for the year.

After the proposed acquisition of Seattle-based Gil's Enterprises for an undisclosed number of Collins Foods' shares, the company would own approximately 323 KFC units along the Pacific rim of the United States, and the state of Queensland in Australia.

Collins Foodservice Inc., the company's wholesale operation, increased sales by 23% in the year despite the sale of the Tampa, Fla., distribution center in November. The subsidiary accounted for 31% of Collins' top-line figure.

COLLINS FOODS INC.

(Fiscal Year Ended April 30)

	1981	1982	1983†	Current Fiscal Year*
Systemwide Sales (In Millions)	$386.1	$426.0	$451.4	$498.0
Revenues (In Millions)	$265.2	$299.4	$325.5	$365.0
Net Profit (In Millions)	$7.4	$9.6	$12.4	$14.0
Average Same Store Sales:				
KFC	$391,000	$436,000	$450,000	$465,000
Sizzler (Company)	$708,000	$800,000	$865,000	$950,000
Sizzler (Franchised)	$602,400	$690,000	$760,000	$835,000
Average Per Person Check (Sizzler)	$4.95	$5.44	$6.12	$6.43
Number of Units	709	685	630	700
KFC	231	236	189	232
Sizzler (Company)	137	133	139.	151
Sizzler (Franchised)	341	316	302	317

Source: *NRN* Research

**NRN* Estimate

†During fiscal 1983 Collins took its Sizzler subsidiary public, retaining 72% ownership; Collins revenue figure for the year is derived: 39% from Sizzler; 31% from Collins Food Service and 30% from KFC operations.

***For the fourth quarter** ended April 30, Collins reported a 25% gain in net earnings to $2.8 million, on a 4% increase in revenues to $79.5 million, compared to the same period last year. Sizzler reported net earnings up 75% for the same period to $1.6 million on a 5% gain in revenues to $31.9 million vs. last year.*

CHAIN ANALYSIS/PART 1: BUDGET STEAKHOUSES

Edging across the threshold into family restaurant segment

BONANZA

DALLAS—Bonanza plans to jettison the Western motif it adopted from its namesake and replace it with a trendy new interior design with a "bright, lighter feel."

The new design is apparently the next step in Bonanza's battle to escape the confines of the budget steakhouse segment and reposition itself as a "family restaurant."

The evolution began two years ago when Bonanza devised the "Freshtasticks" food bar, a lineup of vegetables, soups and salads meant to reduce the chain's dependence on red meat—and more importantly, to attract a broader cross-section of the dining public.

More than 85% of the all-franchised chain's 579 units now foster the program, according to marketing vice president John Kissane. The program has been credited with increasing the chain's average unit sales 6% to $619,000 over the last year. And this year, he adds, comparable store sales are up more than 16%.

Menu diversification—35% of sales are nonred meat items—helped Bonanza post a mild profit in 1982 of $490,000. Sales declined 2% to $366 million—a reflection of the continued attrition of weak units from the Bonanza system.

Has this attrition ended yet? Jeff Rogers, who ascended to the president's slot when John Boylan jumped to spin-off company People's Restaurants, has said he believes the best thing he can do for the chain is to enforce strict standards of quality and performance among the franchisees.

In the last few years this bite-the-bullet strategy has lopped 109 restaurants from the chain in two years. More than $14 million was lost as the company wrote off bad debts last year.

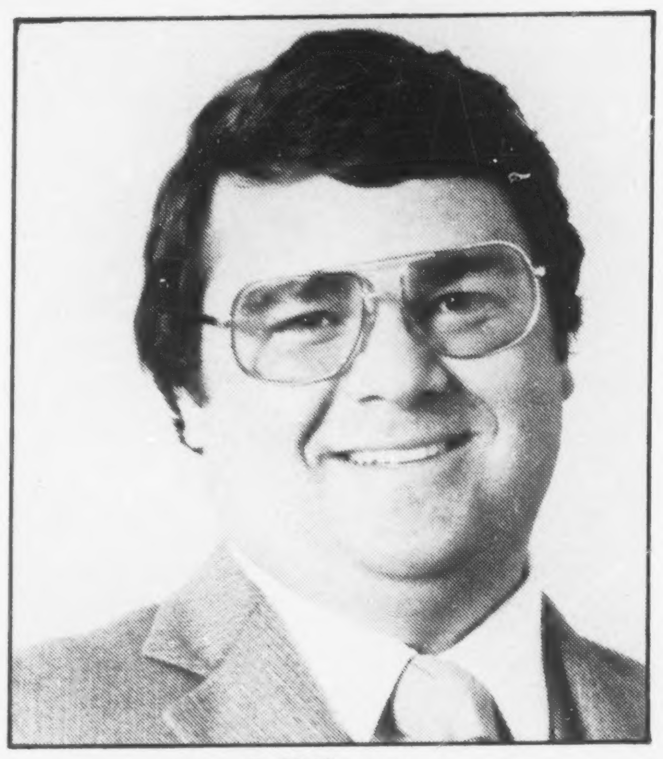
BONANZA

(Fiscal Year Ended Dec. 26)

	1981	1982	1983*
Systemwide Sales (In Millions)	$375.0	$366.0	$400.0
Revenues (In Millions)	$25.1	$26.2	
Net Profit (In Millions)	($14.8)	$490,000	
Average Same Store Sales	$582,000	$619,000	$650,000
Average Per Person Check		$4.38	$4.44
Number Of Units	630	579	620

Source: *NRN* Research

**NRN* Estimate



Jeff Rogers
president, ceo, Bonanza

But one franchisee says the bloodbath is over: "Those boys played tough for a while. They had to. Things were getting out of control all over the system. I don't mind an aggressive posture because those substandard restaurants were dragging down the entire system."

Expect a year of cautious management from Bonanza. Rogers and his team know they must gain the full confidence of the franchisee community before they can complete the transition to a family dinnerhouse chain.

The company continues to serve as a breeding ground for the neighboring People's company. It developed an Italian dinnerhouse concept, named Pané Vino, as a possible replacement for the Bonanza concept in markets where it had become unviable, but sold it to Peoples—which, itself, was started by Bonanza for much the same reason.

Franchisees say Bonanza is now testing another new concept, this one a barbecue restaurant.

An improved economic climate—and the failure of an attempt by Bonanza chairman Sam Wyly to take the company private—have apparently convinced Rogers and his team to expand the system instead of continuing to shrink it.

Meanwhile, the new decor package will be rolled out throughout the system. By the end of the year, Kissane asserts, more than 90% of the system will have the "Freshtasticks" program and between 40 and 45 units will be remodeled.

Quincy's courting 'higher-priced' crowd

SPARTAN

SPARTANBURG, S.C.—Spartan Food Systems, Hardee's biggest franchisee, is edging its fast-growing chain of Quincy's budget steakhouses to the upward end of the segment's price range.

"Extra thick" steaks introduced recently carry price tags ranging from $6.50 to $8.95. They should beef up Quincy's $4.57 average check.

In addition, Quincy's is dropping its "you get what you pay for and then some" slogan for "at Quincy's, you'll find what you had in mind." Executives say they feel the old pitch emphasized price; the new one, they think, is more flexible.

Spartan Food Systems, a subsidiary of TransWorld Corp., the airline holding company, plans on bulding 35 new Quincy's this year for a planned total of 163 at December's year-end. By contrast, the company, which operates 259 Hardee's, plans 15 new fast-food units this year.

Spartan executives figure they have plenty of pricing room left in Quincy's. Last year executives raised Quincy's prices 8% for a 7.8% bigger check. The menu price hikes had been long overdue and it seems that with the "extra thick" rollout, there is still room to grow.

Sales in units at least a year old rose to $887,000 from 1981 to 1982, a 3.7% increase.

SPARTAN FOOD SYSTEMS†

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Revenues (In Millions)	$243.1	$292.1	$336.8
Operating Profit (In Millions)	$30.30	$39.2	$43.8
Systemwide Sales (In Millions)			
Hardee's	$171.7	$190.6	$205.4
Quincy's	$71.7	$101.5	$131.4
Average Same Stores Sales			
Hardee's	$746,000	$761,000	$783,000
Quincy's	$855,000	$887,000	$922,000
Average Per Person Check			
Hardee's	$2.11	$2.07	$2.11
Quincy's	$4.24	$4.57	$4.66
Total Number of Units	341	387	437
Hardee's	242	259	274
Quincy's	99	128	163
% Menu Price Increase			
Hardee's	2.4%	2.6%	2.0%
Quincy's	1.0%	8.0%	5.0%

Source: *NRN* Research

**NRN* Estimate

†Spartan Foods is a wholly owned subsidiaryy of Trans World Corp.

Sticking with its golden formula: Meat, potatoes and value

GOLDEN CORRAL

RALEIGH, N.C.—Investment Management Corp., which owns Golden Corral family steakhouse chain, increased its holdings considerably in the last year by acquiring four new chains. Some of the acquired restaurants are being converted to Golden Corral units.

Investment Management now owns the 255-unit Golden Corral chain; 60 company-owned and about 65 franchised Sirloin Stockade budget steakhouses; nine Oh! Brian's barbecued ribs dinnerhouses; three Nichos fast-food Mexican restaurants, and six Fred Gang's dinnerhouses.

About 45 Sirloin Stockades have been or will be converted to Golden Corral units.

Golden Corral continues to make modest gains in a segment that has been hit hard by the recession and marked by widespread diversification in the past two years.

In the first quarter ended March 31, the family steakhouse chain's net profit inched upward by 6% to $1.33 million on a 27% rise in sales to $38.5 million compared to 1981's first quarter. This followed a 21% rise in profits to $4.9 million on a 25% increase in sales to $135 million in 1982 compared to the year earlier. These results are for Golden Corral only.

Golden Corral has carved out a relatively unique niche in the family steakhouse segment. Where many competitors are situated in economically depressed areas such as the Midwest, Golden Corral's units are mostly in small towns in the South.

The 255-unit chain (as of June 30) also credits its partner-manager concept for some of its success. The managers, most of whom are natives of the towns where their restaurants are situated, invest in the company with financial help from Golden Corral and earn a base salary plus 20% of the profits.

Golden Corral offers its customers a very basic meat-and-potatoes menu that emphasizes quality and value. Entrees range in price from $2.79 for a 6-oz. chopped steak to $6.99 for a 12-oz. ribeye steak and are served with potatoes. A 30-item, all-you-can-eat salad bar is $1.39 extra or $2.69 by itself. Other entrees include filet mignon for $5.79, sirloin steak for $5.29 and a 9-oz. club steak for $4.89.

Golden Corral restaurants do not have liquor. The only nonbeef items besides the salad bar is a 6-oz. ham steak priced at $3.79.

There are about 170 seats in a typical Golden Corral restaurant. Newer restaurants have a more modern design with a greenhouse front, high ceilings and hanging plants.

GOLDEN CORRAL

(Fiscal Year Ended Dec. 31)

	1981	1982	1983*
Systemwide Sales (In Millions)	$108.0	$135.0	$155.0
Net Profit Operating Profit (In Millions)	$4.1	$4.9	$5.5
Average Same Store Sales	$586,000	$650,000	$710,000
Number of Units	184	226	275

Source: *NRN* Research

**NRN* Estimate

***In the first quarter** ended March 31, Golden Corral reported a 6% rise in net profits to $1.3 million on a 27% rise in sales to $38.5 million compared with the same period a year earlier.*

***Golden Corral** is owned by Investment Management Corp., a holding company that also owns Sirloin Stockade, a family steakhouse chain; Oh! Brian's, a barbecued rib dinnerhouse chain; Nichos, a fast-food Mexican restaurant chain and Fred Gang's dinnerhouses. As of June 30, there were 255 Golden Corral units; 60 company-owned and about 65 franchised Sirloin Stockade units; nine Oh! Brian's units; six Fred Gang's dinnerhouses and three Nichos units. Figures in this chart are for Golden Corral only.*

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CHAIN ANALYSIS/PART II

Annual menu mix study—Pages 51-67

Nation's Restaurant News®

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Burger King's chainwide rollout of its new salad bars is expected to make a significant impact on incremental sales.

Fast-food menus expanding to meet customer demands

Problems seen in proliferation of new product traffic builders

By Joe Edwards

New menu items are proliferating at fast-food restaurants, often cluttering menu boards, driving up prices, slowing service, raising operating costs, antagonizing franchisees, and confusing customers.

Despite these problems and the dismal record of most new fast-food offerings, many chain executives insist new products are necessary to boost customer traffic and keep regulars from getting bored.

"We have recognized the consumer demand for menu variety and more nutritional value," says Robert Barney, Wendy's president and chief executive. "The salad bar, chicken sandwich and taco salad have responded to those demands and have exceeded our expectations."

Jerry Ruenheck, Burger King's president, agrees that new menu items such as his chain's just-launched salad bars, can be good traffic builders if done correctly.

Burger King's salad platters and salad-in-a-pita sandwiches are in step with "the nation's trend toward increased concern with health, nutrition and lighter foods, he says, adding that they "enable Burger King restaurants to maintain an aggressive competitive posture in the fast-food business."

J. Willard Marriott Jr., president and chief executive of Marriott Corp., which owns the Roy Rogers fast-food chain, says customers will no longer "continue to placidly consume burgers, shakes and fries. They will demand more variety, more nutritious foods and better food merchandising."

Other chain executives, however, vehemently object to the nonstop parade of salad bars, specialty sandwiches, breakfast programs, dinner platters, and finger foods that are popping up at fast-food restaurants.

Recalling Kentucky Fried Chicken's disastrous attempt to diversify into barbecued ribs during the mid-1970's, KFC chairman and chief executive Richard Mayer says menu simplicity is the key to success.

In a speech to restaurateurs, Mayer said Col. Harland Sanders, KFC's founder, "hated new products and fought against

(Continued on page 124)

Restaurateurs alarmed over latest Federal tax proposals

By Ken Rankin

WASHINGTON—Congress is sifting through a stack of controversial new revenue-raising proposals ranging from a 50% cut in the deductibility of business meals to a 100% increase in the Federal excise tax on alcoholic beverages.

If only a handful of the tax proposals under consideration now in Washington become law, the result could be a new Federal revenue raising package even more devastating to the food-service industry than last year's tax bill establishing tip reporting requirements for restaurant workers and abruptly denying food-service chains access to Government-subsidized "Industrial Revenue Bonds."

Most of the proposals under debate on Capitol Hill now are warmed-over versions of bills considered and rejected by earlier Congresses.

The proposal to double the tax on distilled spirits came under serious discussion early last year, only to be discarded as a result of industry protests. And the sharp reduction in business meal deductions came within a whisker of enactment as part of the 1982 Tax Equity and Fiscal Responsibility Act, until restaurant industry and union lobbyists switched strategies and dropped their opposition to the tip reporting plan.

Similarly, other current proposals to tax the value of employee "fringe benefits" and raise Federal excise taxes on energy have been floating around Washington for over a decade.

This year, however, any or all of those measures stand a legitimate shot at passage, according to food-service industry lobbyists.

Behind the mounting concern among restaurant leaders over this summer's on-going tax debate; a recognition that Congress is dead serious about

(Continued on page 124)

Imasco fills two vacated presidencies

Bunn succeeds Martin at Hardee's; Larive to head Burger Chef

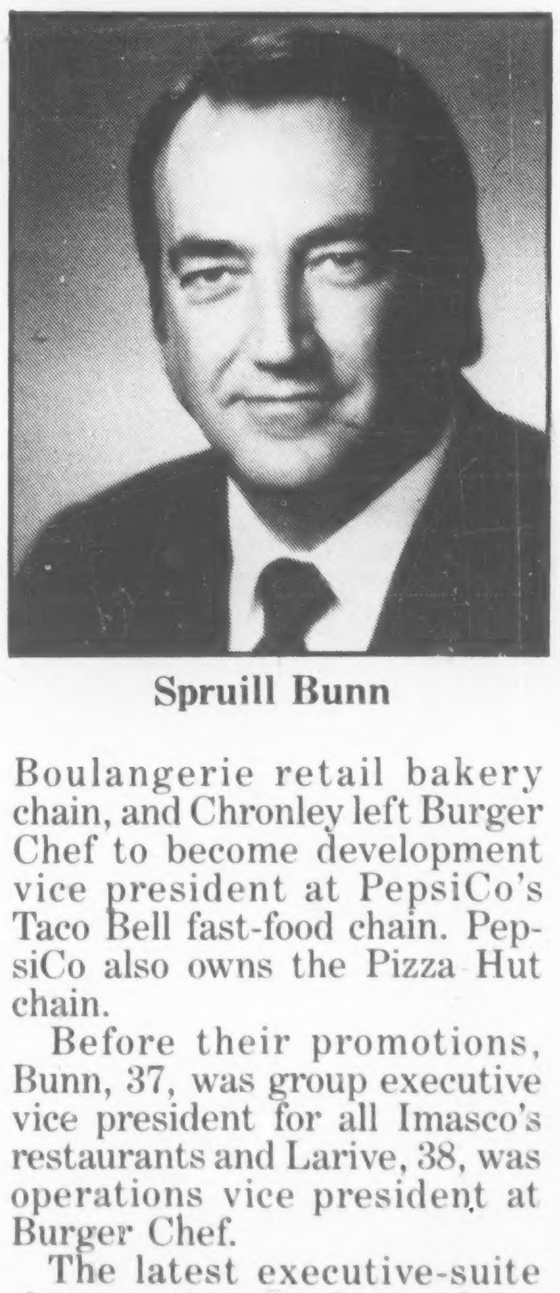
By Rurick Telberg

ROCKY MOUNT, N.C.—In the latest in a dizzying series of top-level personnel changes, Imasco USA has promoted two executives to replace two key divisional chiefs who left for posts at PepsiCo.

Spruill Bunn succeeds John Martin as Hardee's president and chief operating officer, and Robert Larive succeeds James Chronley as Burger Chef president and chief operating officer.

Jack Laughery remains chairman and chief executive of Imasco USA, the holding company which owns Hardee's, Burger Chef, a food-service management company, and a manufacturing and distribution subsidiary.

Martin left Hardee's to become president of PepsiCo's Boulangerie retail bakery chain, and Chronley left Burger Chef to become development vice president at PepsiCo's Taco Bell fast-food chain. PepsiCo also owns the Pizza Hut chain.



Spruill Bunn

Before their promotions, Bunn, 37, was group executive vice president for all Imasco's restaurants and Larive, 38, was operations vice president at Burger Chef.

The latest executive-suite changes are part of a rapid-fire round of industry job-hopping

(Continued on page 124)

Following prolonged slump . . .

Country Kitchen plots recovery

By Joe Edwards

MINNEAPOLIS—Country Kitchen executives are trying to put the family restaurant chain back on course after a long and painful period of frustration, disappointment and discontent.

Since 1978, Country Kitchen has lost market share, fumbled an ambitious expansion strategy and pursued dissident franchisees in what has seemed to be a never-ending series of lawsuits, many of which remain unresolved.

But company officials claim Country Kitchen is ready to grow again. "That difficult period of time, we're happy to say, is behind us now," declares Jim Olsen, corporate restaurant vice president for Carlson Companies, which acquired Country Kitchen in 1977. Carlson also owns T.G.I. Friday's, Radisson Hotels and other businesses.

Some current and former franchisees, however, charging Country Kitchen with "mismanagement," say the chain's reputation among consumers has reached such a low point that recovery will be difficult.

"There's a real negative attitude out here among the public toward Country Kitchen," comments one former franchisee, Jim Petersen, who is involved in lawsuits with the franchisor.

Country Kitchen limped into 1983 with fewer than 270 units reporting annual sales of only $130 million, far short of projections.

Shortly after Country Kitchen was acquired by Carlson Companies, executives unveiled a plan calling for more than 600 units with sales of $500 million by the end of 1982. But the franchisee revolt combined with a weak economy and high interest rates got in the way.

Country Kitchen never even came close to meeting its goals. There were 320 units in 1979, 350 in 1980 and 340 in 1981. As of mid-July of this year, there were 268 Country Kitchens, all but three of them franchised.

(Continued on page 12)

LATE NEWSBREAKS

Thomas J. Russo, Howard Johnson Co. executive vp, restaurants, has been named restaurant group president, a new position. Manuel M. Ferris, Sheraton's North American division president, will become president of HoJo's hotel group, also a new post.

Bruce Hraba has been promoted to president of Amfac Hotels in California. Ronald Barr, chairman of Amfac's Hotel and Resorts group, had been acting president since Charles Sweeney left a year ago.

Denny's expects to report a 9% gain in net profit to $40.2 million on a 10% jump in revenue to $1.05 million for the year ended June 30, compared to the prior year, president Vern Curtis disclosed.

The Riese Organization was reportedly ready to cinch a deal with Marriott's Roy Rogers to develop New York City and possibly become the chain's largest franchisee.